A MANUAL OF

CO-OPERATIVE LAW AND PRACTICE

A MANUAL OF CO-OPERATIVE LAW AND PRACTICE

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AND

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To

H. CALVERT, Esq., C.S.I., C.I.E., I.C.S. (retired), whose *Law and Principles of Co-operation* have been taken, with his permission, as a basis for this book and to whom one of the authors, an ex-Registrar of Co-operative Societies, remains always indebted for his counsel.

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Preface

THIS book was conceived to help in the education in co-operative law and practice of locally appointed members of the staff of Co-operative Departments in Colonial Territories. For the prospective Registrar or Assistant Registrar, the works of Calvert, Strickland, Darling, Campbell and others are available in the United Kingdom although, owing to the war, copies of some of these works cannot easily be obtained. For the locally appointed officer of the inspector grade most of these works are not available in Colonial territories. The various courses of lectures which the Registrars and senior members of their staffs prepare, often in the midst of many other preoccupations, leave an impression on their hearers for a time, but the lessons taught are apt to be forgotten after continuous arguments with members of committees who cannot be persuaded to stick to the rules, or long-drawn-out investigations into the defalcations of a too clever secretary. Questions, too, are apt to arise during discussions to which an answer cannot readily be given without reference to books. Notes taken at lectures are not always very clear, and the notebooks may not be ready to hand.

The Registrar, when dealing with a difficult problem, can always seek for advice from Calvert's *Law and Principles of Co-operation* or some other book of reference. Not so the inspector in rural areas. But if he is unable to give the right answer, or if he gives the wrong one, harm may be done.

It has therefore been the purpose of the authors to produce what it is hoped may be the equivalent of Calvert's *Law and Principles of Co-operation* for the officer in the field so that he may have a book of reference ready to hand.

The Model Ordinance and Rules published in Col. No. 199, which accompanied the despatches dated 20th March, 1946, and 23rd April, 1946, from the Secretary of State for the Colonies to Colonial Governments, have been used, with the

permission of the Secretary of State, in this book. Co-operative legislation varies in Colonial territories, but it is mostly derived from the Indian legislation on the subject based on the Government of India Act, 1912. Readers are advised to examine the Ordinance in force in their own territory and to compare it with the Model Ordinance. Many of the sections will be found to be in almost identical words, and where this is so the comments on the Model Ordinance will be applicable. In some territories some of the sections of the Model Ordinance may differ in wording, though the purpose of the section will be the same. In such cases the comments will also be applicable. There are territories where sections included in the Model Ordinance have not been included in the local legislation. In that event the reader should be careful to avoid any reference to those sections of the Model Ordinance in discussion with the public.

As for the Rules, the reader will realise that they are models—that is to say, it is permissible for the local government to make such or similar rules if it so desires and if the local legislation allows—as it generally does. In some territories some of the rules may be included in the bylaws of the societies, others may not be included in the local rules or in bylaws. But it is permissible for such or similar rules to be made and the comments under each rule may, it is hoped, be found useful.

The way of the co-operative officer is not an easy one and if, by this book, we can guide him in his way and enable him to explain more easily to his audiences the whys and the wherefores of co-operative legislation, its preparation will have been well worth while. The extracts from Calvert's *Law and Principles of Co-operation* are taken from the fourth edition, published by Thacker and Spink, Calcutta, 1933.

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PART ONE

CHAPTER I

Why Co-operation?

One of the questions which co-operative organisers are usually asked—and it is a question which requires a clear answer—is, Why should we, the people in this village, form ourselves into a co-operative society? The organiser has (probably) been talking for some time about various kinds of co-operative societies and he has explained the benefits to be derived from co-operation, and on hearing the question he may be inclined to despair. But the question does not necessarily mean that he has failed to convince his audience. One of them is seeking enlightenment, and the organiser must be ready to give it.

The reason for the question may be that most people dislike the idea of change. They are used to the way in which they market their crops, and they are content with borrowing money from moneylenders, and they wish to hear something more. Some may have read about or heard discussions on the merits and demerits of capitalism, socialism or communism, while in some parts of the world there appears to be a genuine fear that the establishment of a co-operative society will mean conflict with the traditional authority of a chief or other local body.

Throughout history, people have combined for certain purposes, mainly for defence against common enemies, and they have gradually acquired private property, such as their houses, tools of their trade and animals. With the substitution of a barter economy by a cash economy, people exchanged their own products for money instead of for other products. They bought things, and thus their private property was increased. In due course they found that they had a surplus of money, and sought for ways to increase that money. The private company started, formed for trade or for the production of goods, and money was put into it (invested) in the hope of gain. In its original form, the participants put in all their

resources, but it was soon found that for a large enterprise requiring considerable sums of money (a large amount of capital), a different type of company was required, one with limited liability. Therefore, in this type of company, investors (those with surplus money) were enabled to limit their risk of loss, and instead of putting their all into one company they were able to invest in more than one. From these small beginnings the system known as capitalism arose.

Under this system, capital is invested for gain by the investor. Private property rights and the right of free competition are fundamental to it. The main purpose is gain for the shareholders, which gain is distributed on the basis of shares owned. Control of the company's affairs is kept in the hands of the larger shareholders, who have the most votes. Socialism, as opposed to capitalism, requires that the process of production and distribution should be regulated, not by free competition, with self-interest (gain) for its moving principle, but by society as a whole for the good of society. The truly socialist state seeks to abolish private property rights in all instruments of production which may be used to exploit labour, and also in distribution, and in place of competition the state itself proposes to exercise control.

The individuals who make up society would, in their collective capacity possess all the instruments of production, and it is hoped thereby to prevent all the evils arising from the capitalist system. Nationalisation of certain industries in the United Kingdom is an example of the socialist theory put into practice. In place of individual shareholders owning the coal mines, the National Coal Board, as representing society as a whole, has been empowered to control the mining industry.

Co-operative societies, under democratic control, form part of the socialist system. Under the communist system, as indeed under Fascism, the state does not exist for the individual, but the individual for the state. There is no real freedom of choice; there is no real freedom of opinion. The state is all. Once the theory that the state is all is accepted by a majority of the people living in that state, the individual must obey blindly in everything except small matters, where the state decides to allow him a discretion.

It is true that co-operative societies exist under the communist system, but they are under strict state control

and there is little freedom of discussion or action allowed to the members, except in matters of minor importance. Any members of a committee who act contrary to state policy, as expressed by the department which controls co-operative societies, are at once dismissed and may suffer the penalty of imprisonment, exile or even death. There is room for co-operative societies under the capitalist system as a corrective for the evils of that system, under socialism as part of the system and under communism as state-dominated societies.

Evils have arisen as the result of too much concentration on the profit motive, which is inherent in the capitalist system, and it is the purpose both of the socialist and of the communist to remedy those evils by drastic changes. Although many of the worst features of the system have been modified, the trend in most States to-day, where capitalism was formerly accepted by the majority, is towards forms of state socialism varying in degree.

Co-operation in its present-day form started under the capitalist system as one of the remedies for certain of the evils inherent in that system. It started among persons with grievances who decided to join with their fellow men for self-help and mutual help. A co-operative society is not composed of persons whose primary aim is to make money out of other people; it is not composed of a body of shareholders who have no interest, except so far as their money is concerned, in the work which the organisation is doing; it is not controlled by the people who have put the most money into the organisation. If a co-operative society contains any of those features then it is not truly co-operative, but a limited liability company which should be registered under the ordinary Company Law.

It is often argued that the organisation of groups of small producers or consumers under the ordinary Company Law is sufficient, and that the form of organisation provided under that law is wide enough to cover all the needs of these groups. Co-operative societies are, it is argued, little different from companies, and the Co-operative Law is in a greater or less degree taken from company law. It cannot be denied that a co-operative society is a form of company, but while there are certain similarities, there are also considerable differences. The promoters of a company may be gentlemen in a town whose profession it is to promote companies. They consider, for

example, that profits can be made by the formation of a company to make and sell soap in a certain area. They therefore invite people with surplus money to buy shares in that company, with a view to gain either through high dividends or through the sale, in due course, of their shares at a price higher than the purchase price, if the company does good business. The people who buy most of the shares (those with most money in the company) control the company's policy. If this proposed company were to be organised on a co-operative basis, by the producers in the area of the oil used to make the soap, the picture would be quite a different one. To begin with, participation in the co-operative society would be open to all producers of oil in the area, not just to people who had surplus money to invest; no one member of the society would be allowed to hold more than one-fifth of the share capital; shares could not be sold except to other members at a price approved by the committee, i.e. there would be no gambling in the shares and the control of the society would be vested in a committee elected by all members on the basis of one man one vote.

Moreover, dividends would be limited to a reasonable return on share capital, and any surplus would be returned to all the members in proportion to the amount of oil for soap making which each had brought to the company's soap factory during the year. The limited liability company exists for the benefit of the shareholders, who have no economic interest in common except gain, while the co-operative society is formed by persons having the same economic interests and it is controlled on a democratic basis of equality by those persons who also benefit from its operations to the extent in which they participate in them.

A similar examination may be made into the difference between a company formed for the purpose of selling consumer goods (clothing, grocery, hardware, etc.) and a consumers' co-operative store society selling the same goods. The differences are the same as those set forth above in the case of the hypothetical soap factory, but in a consumers' society the profit, after covering all expenses and allowing for a certain amount to be credited to the reserve fund, is distributed in accordance with the total quantity of purchases made at the store during the year. In the case of the limited company,

the surplus profit goes to the shareholders in the form of dividend on the capital invested. The co-operative society is thus preferable to the limited liability company as a form of organisation for the economically weak.

A form of organisation for agricultural producers which has been favoured in some countries is the Marketing Board. This organisation covers producers of a certain agricultural product and they are compelled by law to sell their product only to or through a board, the composition of which varies. It usually consists of representatives of the producers, elected by them, sometimes also of representatives of distributors, with a neutral chairman appointed by the government. Representatives of consumers may be included. The procedure prior to the formation of the Board is for a vote to be taken of all producers, and if there is a certain majority in favour of the marketing scheme proposed, then all producers of that particular product are compelled by law to market it to or through the Board. A marketing board usually deals only with one product and its by-products, and, if it is set up to deal with cocoa, for example, it cannot deal with maize or tobacco unless the whole procedure is started afresh and a separate board is set up.

It is often argued that a marketing board is really compulsory co-operation under another name, and that if the main crops in any territory are disposed of through boards representing all the interests in those products, the producers will get the best possible price; and since that is the main end of co-operation, there is no need for co-operative societies at all.

While there is provision for the representation of producers on the boards, there is bound to be a suspicion that factors other than the producers' wishes play a great part in decisions on prices, etc. To the ordinary producers, the board is far off, and they do not feel that it is their own organisation. The co-operative solution would be primary societies of producers of a particular product, federated into unions, of which the societies are members, and the creation from the unions of a central society for the disposal of the product. In this way the producers would be satisfied that the organisation was their own and would accept its decisions. They would know that, if they wished to do so, they would have the power, through their unions, of changing the members of the

committee of the central society if their decisions were unsatisfactory.

The build-up of a central society of this nature cannot be done quickly. It must grow, and since a considerable time must elapse between the start of the primary societies and their federation into unions and finally the establishment of a central society, well-meaning persons or governments are apt to consider that an immediate marketing board is preferable to a long wait.

In some countries compulsory co-operation has been tried for marketing purposes, and laws have been passed that where a certain proportion of producers of a particular product are members of societies formed for marketing that product all producers must market through the nearest society. There are circumstances in which compulsory co-operation is justifiable, but the gradual assumption of marketing powers by societies joined freely is usually preferable to compulsion. It may, however, be decided by government, as a matter of policy, to institute a marketing board for a certain product. In that event it is most desirable that provision should be inserted in the relative legislation laying down that, if and when co-operative societies develop, they should, through their unions at first and then through a central society, gradually take over the powers and duties of the board, so that in due course the board may be converted into a truly co-operative producers' organisation.

But co-operation is not merely marketing, nor is it the organisation of producers for the purpose of gain only. If those were its sole aims, marketing boards and limited liability companies would suffice. Co-operation is the organisation of people with needs in common for any and all purposes which may improve their lot in life. It is all-embracing, and its aims are not only material but also moral. The co-operative society helps to make its members good citizens. It teaches comradeship; it educates adults in thrift, in self-help and mutual help and, through participation in a society's affairs, the ordinary man in an ordinary village learns very quickly about what may be called the business side of his daily life, whether as a producer or a consumer, or both.

The material gains may possibly be obtained through marketing boards, limited liability companies and agricultural banks,

although the latter cannot possibly hope to deal with numerous small farmers, but the moral gains can only be obtained through the getting together of people who have interests in common, into village groups or groups in towns, all subject to one and the same law, the Co-operative Societies Law.

A model law will be seen later in this book, and in most territories laws similar to this model already exist. The law and the rules are the result of experience in the working of co-operative societies in India and in certain territories in the Colonial Empire. The co-operative society and the law governing its duties and privileges, rights and liabilities of its members, property and funds, its audit, inspection and its dissolution, are not the creation of well-meaning theorists but the result of years of work by co-operators and organisers, and of lessons learnt the hard way. In many countries people have learnt that there is no substitute for co-operation, and that a full life is only obtainable through co-operation. And although the first steps may be faltering, and the difficulties, mainly caused by apathy and ignorance, may seem enormous, yet they can be overcome, and the day will come when people will look back and wonder however they managed to exist without a co-operative movement.

CHAPTER II

The Technique of Approach by Members of the Co-operative Staff

THE Chinese pray to be delivered from three major disasters: floods, famine and government officials. The outlook of many people in rural areas in economically undeveloped countries is very similar. The government official is connected in their minds with orders and, worse still, with the collection of taxes. He interferes with their ordinary routine, and the police, in particular, prevent them from carrying out traditional customs, such as giving a lesson to an unpopular neighbour by beating him up. For those reasons government officials are not much welcomed unless and until they show by their words and actions that they are out to help and not simply to give or enforce orders.

The staff of the co-operative department are Government officials, and it should not be otherwise, but they have to remember that this fact is in the main a handicap rather than a help to them in their dealings with the public. They should try, so far as possible, to cast off the robe of officialdom and where, as in some territories, uniform is worn by travelling officials, it is undesirable that the co-operative staff should wear it. Nor should they try to impress people by appearing in smart town clothes. This does not mean that they should dress in the clothes usually worn by a labourer on the roads. They should be clean and tidy, but not overdressed.

Since the co-operative staff are to the people just another lot of government officials, their first task in making contact is to break down the barriers which undoubtedly exist in most territories between government officials and others. It is given to some to be able to mix easily with their fellow-men. These are the fortunate ones and they do not have to think about it, but the technique of approach can be learnt provided

there is patience and sympathy and a readiness to put oneself in the position of the other fellow and to try to look at things from his point of view. The staff must forget that they are educated men dealing often with uneducated men. A man who can get a living and bring up a family off a small patch of land and a few trees, or by daily labour on the roads, is as good a man as he who has passed an examination and has the status of a government official. And that man knows about a lot of things of which the official is probably ignorant. He may not be able to read and write and he cannot put his ideas easily into speech, but the knowledge is there. And there are many people nowadays, even in the most remote areas, who have fought the jungle in Burma, have travelled throughout India and North Africa and have had much more general experience than the members of the staff.

The approach must be patient, sympathetic and, above all, free from pride. "We do not like so and so (a co-operative officer). He is a proud man." Confidence having been gained and the people having realised that this is not just another government official, the line of approach will vary with the object of the visit. The co-operative staff should try to avoid giving the impression that any suggestions that they may make—for example for the formation of a credit society in the village, are the order or even the expressed wish of the government. The line to be taken will be that the government has set up a department to explain, advise and help; the government thinks that co-operation is a good thing, otherwise the department would not have been set up; in other countries there are many societies of various kinds; in this country it is proposed to do things in the following way. Then should follow an explanation of what a society is, how it works and how it should be formed. Finally, it should be suggested that the people should think about it and, if they wish, the member of the staff will come back again later for a further talk. It should be emphasised that it is up to the people themselves; if they wish to form a co-operative society, this is the way to do it, but if they do not think it is a good thing to do—"Well, it has been pleasant to come to the village, and let us hope that we shall meet again some day." If a neighbouring village has formed a society, it may be suggested that they should talk it over with the people in that village. A

formal set speech is best avoided at the start, unless there is a demand for it. A talk in which the people are persuaded to join in is usually more effective than a speech.

There are occasionally to be found in the audience a few people who try to show off, and others who ask the same question over and over again or continually repeat themselves. The first are usually dealt with quite effectively by the audience themselves, who have heard their stories more often than they wish, and the staff should be careful to leave the shutting up process to the audience. The repeaters are more difficult to deal with, but a courteous reply, with reference to a reply previously given, will usually get the audience on the side of the speaker. Loss of temper or sharp replies are fatal. They merely encourage interrupters, and the local man is bound to be supported by the audience against the stranger, especially when the latter is a government official. A quick jest, of a kind understood by the audience, is a great help. But it is not given to all to be able to jest, especially at the right time. And it is better not to jest if there is any fear that the jest will not be understood. The staff must not be disturbed if, when a lorry passes by, the audience take far more interest in that and argue about who was driving it and what was in it rather than the subject under discussion. A loud-voiced quarrel between some women in the village may interrupt a speaker just as he is really warmed up. But one has to put up with these interruptions, and laugh about them and then carry on with the talk.

It is not easy to get the right wavelength, as it were, with varying audiences, although it can be learnt by practice; but if a man is not proud, if he is patient and sympathetic, he will usually be received with courtesy and often with appreciation.

The man who, whether willingly or unwillingly, gives the people to understand that he as a government official has come to tell the people what they have to do, had better give up being a co-operative officer and try collecting taxes.

CHAPTER III

Rural Credit

IT has been said that too much credit is worse than no credit, and this dictum should be kept in mind by committees of rural co-operative societies giving credit facilities to their members. These facilities should be strictly controlled, and the purpose of this chapter is to show the different types of credit to be given and how control should be exercised. Rural co-operative societies should concentrate on short-term credit, although it will be seen later that under certain conditions they may provide medium-term credit as well. Long-term credit is best left to institutions specially designed for the purpose; as a general rule it should not be handled by co-operative societies.

Credit is needed in agriculture owing to the time that passes between the act of planting and the sale of the harvested crop, and during that time the farmer has to live and to buy certain necessities. After harvest he should be able to pay for his purchases out of money obtained by the sale of his crop or part of it. But to begin with he either borrows in cash or obtains the goods on credit. In both cases he has to pay interest, and he may have to tie himself in other ways, such as a promise to hand over the crop at a fixed price. If he is a member of a co-operative society, he should be able to obtain credit from the society.

This form of credit is short-term credit and is given for the period of the crop, with a few weeks over to enable the farmer to dispose of his crop conveniently, i.e. he should not be compelled to sell immediately at harvest time, when, owing to a large quantity being offered for sale, the price usually falls. The period for which the credit is given will depend on the kind of crop and the way in which it is marketed.

The members of the committee of the village co-operative society will be mostly farmers. They know what each farmer member of the society is doing. They know his family needs,

how these needs can be met from his own farm, and what are his other requirements which he must buy. They also know what crops he has planted, or intends to plant, how long before they are ready for sale, and what expenses are required to harvest them. In short, they know what his credit needs are to cover the period from seed-time to harvest.

The farmer member will apply, before seed-time, to the committee for a loan, stating his requirements and the purposes for which the loan will be used. The committee will consider his application and, if they think that his demand is reasonable, they will approve the loan, subject to the condition that it will be used for the purpose stated in the application and that it will be repaid on a certain date (to be fixed after the time of the harvest). It is important that this date for repayment should be fixed at a time when the member should be in a position to repay from the sale of his crop. This may seem elementary, but it is occasionally forgotten.

The provision of short-term credit where credit is needed (and there are few cases where credit is not needed) is the most important object of rural co-operative societies. If marketing societies have been started, the credit problem will be there, either open or hidden, and the society, if it is going to be of any real help to its members, will have to be in a position to supply the credit which they require. But it should be short-term credit for the period of the crop or crops. Where a member has pledged his land to a merchant or shopkeeper, and the extent of his indebtedness is considerably in excess of the income which can be obtained from the sale of his crops, the committee will be ill-advised to grant him credit. Societies at the start depend mainly for finance on deposits, usually for short periods, often withdrawable at a few days' notice, and on advances from a central bank, repayable at the end of the harvest of the main crop in the area. The society's funds are thus repayable on a due date, and since they have to be repaid, in order that the society's good name may be maintained, the members' loans must also be repaid on the due date. It is not easy to persuade members that repayment on the due date is vital to themselves and to the society, and that their loans are on short term only. There are so many seemingly good excuses why a member cannot pay, but if the members do not pay, the society will be sued by its creditors (depositors

or a central bank), and there is a only one result—liquidation of the society by the Registrar under the Ordinance.

As societies develop, they may increase their share capital, the reserve fund begins to grow, and there may be found depositors who are willing to deposit money in the society, not for a comparatively short period, but for a period of two to three years. It is then possible for the committee to consider lending out part of that money on medium term, say, 2–3 years. There will be plenty of applicants for such loans. A member may wish to improve his property by sinking a well, by building a store for his crops, by fencing in a garden. Or he may wish to buy some sheep or cattle or a strong donkey; or he may wish to plant some fruit-bearing trees. These are just a few examples. The committee and the member know that he cannot repay out of the proceeds from the sale of his crops in one year. But if he lays aside a little money yearly, he may be able to repay by instalments over three years. The committee will examine the whole question very carefully. Can he repay, and if so, how much yearly? If they decide that the object is a good one, and especially one which will increase his income in future years, they will then consider whether he can repay and in what way it will be most convenient for him to do so, whether by instalments, and if so at what period or periods during the year. It is no good lending a man £5 and asking him to pay it back at the end of the harvest, when it is quite clear that his whole crop is not likely to be worth £5. But if the £5 is spread over three years, he may be able to pay back one-third of the £5, with interest, yearly, and have an increased income at the end of the three years.

It must again be emphasised that a society can only lend for three years when it is certain that it will have the money for three years, and that medium-term credit should not be started until the society has had some experience in dealing with short-term credit.

There remains the question of long-term credit (3–15 years), and it may be stated, without fear of contradiction, that rural societies are not fitted to deal with this form of credit. In dealing with short- and medium-term credit above, mention was not made of credit for the purpose of paying off old debts. There are occasions when a small amount of old debt can be paid off by a medium-term loan from a co-operative society, and such cases will be considered by the committee on their

merits, but to settle old debts which have grown from year to year, long-term credit over a period of years is required. Long-term credit is also required for the purchase of land or for the planting of trees on any large scale. This type of credit is usually supplied by special institutions, often sponsored by governments, in the form of land banks or agricultural banks, the object of which is to lend money to individuals on the security of mortgages on land and buildings. For this purpose a system of land registration is usually necessary, or some form of title to land from which the boundaries can easily be identified and which is not liable to be called in question in a court. These conditions do not obtain in many parts of British territories in East or West Africa.

Co-operative societies can be of great assistance to a land bank, as they are able to give full information to the bank about a prospective borrower, his land and his farming operations, provided he is a member of a credit society, and the bank will find this information of considerable value. Societies may also be used as agents for the bank to give and receive money on its behalf.

There are to be found, in every territory, people who question the need for rural credit to be provided through co-operative societies. They are under the impression either that there is no credit problem or that farmers can carry on with existing methods, such as credit from storekeepers. They also hold the view that a group of farmers cannot possibly manage a co-operative credit society, that they are all suspicious of each other and that they will never co-operate. The reply to such people is that what has been done elsewhere can be done in our territory. Credit societies exist all over the world, from China to Canada, from Cyprus to Ceylon. Those in the Punjab in India have had an immense influence in the improvement of rural conditions in that Province.

The secret is to follow the path started by Raiffeisen in Germany and followed in Europe, India and elsewhere by his successors in the organisation of co-operative societies. Many of the lessons learnt, often after failure, are embodied in the Model Ordinance and Rules and in the comments on them and in these notes. Conditions vary in each territory, but if the main principles of co-operation, as expounded by Calvert in his *Law and Principles of Co-operation*, are followed, a healthy rural co-operative credit organisation will result.

CHAPTER IV

Deposits

ANY group of people forming a co-operative society requires money in a greater or less degree for the society's operations, unless it is formed purely for the purpose of thrift, in which case all the funds are deposited in the P.O. Savings Bank or a central bank. A society formed for marketing will require money to give advances to members when they hand over their produce, a credit and thrift society for loans to members, a store society for purchase of stock and so on. The central bank or the union of societies will play a considerable part in financing its member societies, but societies can and should help themselves by attracting deposits from local sources. If the spare cash of the local people is deposited in the village society, they will take a greater interest in the society, and the committee, knowing that they are dealing with the money of their friends and relations, will be much more careful in the way in which they will use it than if the money was all provided by the central bank. Funds obtained locally tend to make a society more stable, and it should be impressed on societies that every effort should be made to attract these funds in the form of deposits, that is money lent to the society at certain fixed rates by both members and non-members. Deposits may be of three kinds: at call, savings or recurring deposits and deposits with fixed term.

Deposits at call mean that the society undertakes to receive money on one day and to pay it back immediately when called upon to do so. There is a danger in the acceptance of too many deposits of this kind, for if all the depositors call for their money back at once, and the society has lent it out over a period of 3–6 months for agricultural purposes, the result will be that the society will have to go into liquidation as they will be unable to pay back depositors on their demand. The acceptance of deposits at call is a dangerous business, and while for convenience small amounts may be accepted at call from

members wishing to make deposits of this kind, the amounts should be kept to the minimum.

Deposits at call should not be accepted from non-members. If the society is temporarily in financial difficulty, members can be asked to wait a little while for payment, whereas if non-members are asked to wait they will suspect that something is wrong, and the credit of the society will be endangered. The best way to start deposits and to help both the society and the members is by savings deposits. These are sometimes called recurring deposits, as it is usual for small sums to be paid in weekly, fortnightly or monthly as the case may be. They may be for six months, one year or three years, but it is usually more convenient to arrange them for one year. This period suits most members in agricultural areas, and it is convenient for the society, provided that the time for repayment coincides with the time at which the main crop is ready for sale and the society will have cash in hand for repayment. Care must therefore be taken that the date for the start of the deposits is arranged accordingly.

Each depositor is given a passbook covering 52 weeks, and deposits are made weekly, fortnightly or monthly, as the case may be, in certain fixed sums, 3d., 6d. or 1s. These fixed sums help the secretary in his accounts, and the depositors, who know how much they have to save. Interest, at a rate settled by the society, is paid at the end of the period, and in order to encourage people to keep up their deposits it is often provided that no interest will be paid on sums withdrawn before the end of the period. Interest rates on savings deposits may be kept low, as the main object is to accumulate some money and not to gain interest. Depositors are allowed to withdraw against their deposits after giving notice, but a limit to withdrawals may be laid down, e.g. that only one half of the money may be allowed to be withdrawn until the end of the period. Some societies provide for a penalty on withdrawals of so much per cent., to be retained by the society, but this is only enforced when the depositor withdraws all his money and does not continue with his deposits. The main purposes are to accustom the people to the habit of savings and to provide the society with funds for its operations.

A considerable amount of work falls on the secretary. He has to be present in the office at fixed times to accept the

deposits; he has to make the entries in each depositor's passbook, and he has to make further entries in the register of savings deposits kept by the society. During discussions on savings, it will usually be stated that since people are poor they cannot save and that it is therefore useless to start these deposits. Experience elsewhere has shown that the main difficulty is not the money, provided that the minimum is kept low enough; it is the will to save which is lacking, and this method of recurring savings helps to strengthen the will to save. Weekly or monthly deposits should be kept low, especially in the first year, and depositors should be discouraged from undertaking to save more than the minimum. Regular deposits of small sums are preferable to irregular ones of larger amounts.

These deposits may be made by adults in the name of a child. If the period is for one year the depositor may be advised, when he withdraws the money, to make a fixed deposit, on which interest will be paid by the society, for three years or more, so that the money will remain available for the child when it grows up. He may also be advised to take a passbook for another year.

After one or two years' experience, the committee will find out what is the most suitable period for these deposits, what is the most convenient sum for depositors and what amount the society can reasonably expect to get monthly. But they cannot lend out or otherwise use all the money deposited, since depositors have a right to withdraw at any time after giving the notice laid down in the regulations printed in the passbook. Part of the money must always be kept readily available for repayment, and it is usually deposited in the central bank or, if there is no central bank, in the Post Office or a commercial bank. Experience will show how much can safely be used by the society in its operations and how much should be kept fluid, i.e. in a bank and withdrawable at very short notice. At the start at least one-third should be kept fluid, although if the central bank is prepared to advance money to repay depositors as may be required, most of the money may be used by the society.

In some societies it is the custom for the committee to refuse to authorise a loan to a member unless he has a savings passbook. In theory this compels a member to save, and if the minimum is low enough, so that if he is careful he can save

the required amount weekly, the custom is to be commended. If, in practice, he is forced to borrow in order to keep up his deposits, the custom is useless.

It cannot be too often repeated that savings deposits are essential to the well-being of members and of the society, and every effort should be made by the staff to encourage them. Deposits with fixed term are of great value to the society, but at the start they are not easily obtained. The society informs the public that it is prepared to accept deposits up to such-and-such a sum for such-and-such a period at a fixed rate of interest depending on local conditions, the society's need for the money and the rate of interest which members pay to the society on their loans. The ordinary inhabitant in rural areas prefers to hoard his money, if he has any. He likes to know that it is there in a certain place known only to himself, although it is usually known to other people, and often he is robbed as a result. But the idea of making a deposit in a co-operative society is usually strange. It is often a matter of common knowledge that so-and-so has a little money hoarded away, and a member of the committee who is a friend may approach him and suggest that the society should look after the money for him and pay him interest. He should be asked to deposit it for a fixed period so that the society may use it effectively. Or there may be a man who, although possibly not a member, will wish the society to succeed and may be persuaded to deposit for a fixed term. When it is known that he has made a deposit, others may be persuaded to make deposits as well. The difficulty is usually to persuade the first depositors, but when they begin, and people hear about it, others are usually prepared to follow. Deposits of this kind may be obtained from members and non-members, and as members are usually in need of money, they are more likely to be obtained from the latter. The total amounts of deposits which a society may accept is fixed in general meeting (Section 31 and Rule 20) and the committee must be careful to see that that amount is not exceeded.

Equally, the committee must be careful to see that the dates for repayment of these fixed deposits are spread over the year and are mainly fixed at times when the society is in funds. This sounds a little difficult, but with experience, it is quite easy, and the ledger of fixed deposits kept by the

secretary will show the date on which each one is due for repayment, so that any new ones can be arranged accordingly. The advantage of fixed deposits is that the committee know how much money they have for the society's operations and for how long. They can then plan ahead. As soon as there is a central bank the societies may accept more money on deposit than is required for their operations, for any balance can be kept in the central bank, which will pay interest to the depositing society, and use the money for other societies which may be unable to attract sufficient deposits.

The society will thus be helping other societies—mutual help. The acceptance of deposits need not be confined to credit societies. All types of society, provided that the necessary bylaws are approved, may accept deposits, since by so doing they accustom the members to saving and also to using societies as a place in which to keep their money rather than by burying it in the ground. If, however, a credit society exists in the area, other societies should not accept deposits. Funds are always required in any progressive co-operative movement, and the village societies alone can attract money which otherwise would never become available for productive purposes.

CHAPTER V

Marketing and Processing

THE co-operative officer is almost certain to be pressed for advice and action on the co-operative marketing of agricultural produce. This is an important but also a difficult enterprise. It has been attempted in nearly all parts of the world, with all types of produce, animal and vegetable, temperate and tropical, perishable and non-perishable. It has had great successes and one or two rather disastrous failures.

Successful co-operative marketing calls for both discipline and efficiency in a higher degree than many other forms of co-operation. The member must be prepared to deliver, with or without a binding contract, all his produce of a particular kind, to his co-operative. He must carry out the directions of his co-operative and perhaps also of his agricultural officer, in order that his produce may be of the best quality, presented in a clean and hygienic condition, and he must be absolutely honest in grading and packing. He may have to make special arrangements, such as the calving of cows at different seasons, in order to keep up a steady flow of produce all through the year. His temptations are to break away from his co-operative society because he is offered a higher price by some dealer, who would probably drop the price the moment he had put the co-operative out of business; to sell his best produce to dealers or private customers and only send the co-operative society his worst, which he cannot get rid of in any other way; to be a careless, lazy or dirty producer; to arrange his crops badly so that he has nothing to sell one month and a glut the next; to put all the best strawberries on top of the basket.

The co-operative society has not an easy task even if it has perfectly loyal, painstaking and intelligent members. With the best will in the world, neither the supply nor the quality of agricultural produce is perfectly uniform. Most of it is more or less perishable. The co-operative society has to sell this delicate and uncertain commodity on a world market in

which prices constantly fluctuate, often at a considerable distance from its place of origin and the society's own headquarters, to powerfully organised trading interests who are indifferent to the farmer and often hostile to co-operation. The society may have to process as well as grade and pack the product, and the processing will call for capital, knowledge and skill.

Some of the most successful examples of co-operative marketing have been with products which require both processing and sale at a distance. This is notably the case with butter and cheese and certain meat products such as bacon. Where the processing or manufacture can only be carried on in a factory, and the processed product fetches an appreciably higher price than the raw product, the member has no temptation to try to get a better price by selling outside his society. In any case, if the market is overseas, he does not know how to get in touch with it. These limitations alone, however, would not have accounted for the success of, for example, the Danish or New Zealand dairy co-operatives. The reason should be sought rather in the absolute loyalty of their members, their intelligence in improving the quality of their product by improved breeding, scientific feeding and attention to cleanliness; the fact that co-operation got in first, and did not have to fight well-organised private interests in this field; and the skill with which the co-operatives have adapted their product to the needs and tastes of the market. Eggs, on the other hand, have been much less rapidly brought into co-operative marketing schemes, even in those countries where co-operation flourishes. This is because they are the perquisite of the farm woman and can be sold in small quantities to the local trade. It is only now that mechanical testing and grading are becoming general, that the egg is, in fact, undergoing processing, that egg marketing is making rapid progress. A good deal of wool is sold co-operatively, but not all. The Australian and London wool markets are still mainly in the hands of private dealers.

Of the vegetable products, the most important is grain. It is sold co-operatively in a number of countries. In Europe, where it is only one item in the produce of mixed farms, it is often sold through general farmers' societies, which supply their members with feed, seeds and fertilisers and buy certain

items of produce from them in return. Such grain is often dried, if the climate is damp, and graded into millable and non-millable wheat or rye. The millable wheat is sold to flour millers (occasionally the co-operative may have a flour mill of its own) and the malting barley to brewers. The inferior grades are sold back to farmers, often after grinding and sometimes after compounding with other feeds.

In the great wheat exporting countries—Canada, the United States, Australia—grain is handled by special co-operatives which have no other business. It is received from the farmers, cleaned, graded, and held in co-operatively owned elevators till it can be moved out gradually on to the market. This period of storage is necessary, partly because railway and steamship lines cannot cope immediately with the great volume of wheat available within a few weeks of the harvest, but also because the release of a large quantity immediately would depress the price to a very low level. This is a feature of the marketing of many field crops but is not so important in the marketing of animal products, since the latter, apart from wool, are forthcoming throughout the year. With a seasonal crop, the co-operative can do its members an important service by taking their produce from them, paying them an advance up to, say, one-half or two-thirds of its probable value, and then disposing of it gradually over the following 12 months. The service is considerable, and the co-operative is in a good position to borrow the necessary funds on the security of the grain or wool in its warehouses. But there is also a danger. While prices are rising or keeping about level, it is safe to advance a substantial proportion of the price. But if prices are falling heavily from causes (such as a succession of bumper harvests or heavy industrial unemployment) over which the co-operative has no control, the advance payment may prove to have been more than the final price received. In such an event the co-operative will be in a position of great difficulty, with heavy debts to the banks which it will have no immediate prospect of repaying. This actually happened to the Canadian Co-operative Wheat Pools when they were caught by the great depression in 1929–30. They were saved by a government guarantee of their debt to the banks, the loyalty of their members and the courage and faith of their management. Even so, they had to give up the pooling principle and the

attempt to sell direct to the European consumer and go back to sales by the co-operative on the speculative Canadian and United States grain exchanges. But the elevators remained in co-operative hands and to-day handle more than a third of the crop.

Co-operation has succeeded in the sale of non-perishable fruits. The American citrus exchanges are models of efficient handling and have built up a great and permanent market in the United States and overseas on the basis of skilful advertising and the discovery and exploitation of a real and comparatively new demand from the consumer. Apples and dried fruits such as raisins have been handled in the same way in different countries. The growers have in most cases been specialists fruit farming on a fairly large scale. The attempt to apply the same methods to banana marketing in Jamaica were, however, a failure. The growers were, for the most part, small peasants. The organisation was put through rapidly, without the education which should have ensured loyalty and patience. The powerful monopolies offered higher prices than the initial payments of the co-operative. Many members were tempted to desert their organisation, prices dropped, and even the original payments to members could not be maintained. The organisation was saved from complete collapse by government, but only at the price of losing its co-operative character.

The co-operative marketing of cotton and tobacco has been partly successful. The first attempt in the United States had to compete with a strongly organised speculative market in cotton and with the jealousy of very powerful companies in tobacco. Some tobacco co-operatives went out of business. The cotton co-operatives were reorganised, and the most successful to-day are those which do not merely sell cotton, but also gin it, and in some cases crush the seed, selling the oil and returning the cake to their members.

Among the small producers of the Mediterranean countries it is usual to make wine and olive oil co-operatively. The first stage is a co-operative press, to which all the growers bring their grapes or olives. The co-operative takes payment for its services in the form of a proportion of the oil or wine, but otherwise there is no co-operative sale. Marketing, however, is the next stage, made easier when there is a considerable

quantity of a uniform grade product from the co-operative press rather than odd lots of varying quality from each farmer in the village.

The marketing of perishable fruit and vegetables is much more difficult. Two methods have succeeded—daily sales by auction to wholesalers and exporters, and deliveries by lorry direct to retail shops, including consumers' co-operatives, or to wholesale and retail markets. The Dutch and English have done well with auctions, the Americans with lorry deliveries.

There is often a good deal of exploitation by middlemen in the marketing of agricultural produce. It is not to be supposed, however, that co-operative marketing can succeed merely by cutting out middlemen's profits. The middleman is no fool and he is quite ready to cut his own profits, for a time, in order to undercut a young co-operative society. He has usually the longer purse and a good chance of wearing the society out. The basis of success in co-operative marketing is a membership which really understands what the society is trying to do and which is prepared to stand by the enterprise, a really efficient staff which understands both co-operative principles and commercial practice, and a commodity for which a steady market exists or can be created by intelligent adaptation of the commodity.

CHAPTER VI

Distributive or "Consumers'" Co-operation

THE outstanding success, the sheer power and volume of the industrial consumers' co-operative movement in Britain, and the publicity given in recent years to consumers' co-operation in the United States have given this branch of co-operation a prestige which is likely to call up willing imitators from among Colonial people who have read or heard something of the movement in other lands. The demand for a Colonial consumers' movement is bound to come and will have to be met. In some colonies (e.g. Ceylon) a co-operative consumers' movement on a large scale already exists, but it should be noted that it was not developed until credit and thrift societies had been in successful operation for over 15 years.

Consumers' co-operation originated in Britain in the Hungry Forties of the last century, when the workers of the industrial north suffered a long period of low wages, evil conditions, unemployment and the exploitation of petty shopkeepers, to whom many of them were in debt. Most of the pioneers of the movement were really aiming at something much more ambitious, a more or less complete co-operative community in which factories, farms, houses and shops would all be owned by the workers themselves. The first step was to get out of debt, escape the high prices and adulterated goods of the shopkeeper and begin to build up funds for the larger enterprise.

The first co-operative store was at Rochdale, but it was soon followed by others. In conditions of nineteenth century retail trade, the problem was fairly simple on the material side, but called for considerable qualities of character and intelligence on the part of those accepting responsibility for the enterprise. Each store society was registered as a limited liability concern and capital was collected in the form of shares, sometimes supplemented by deposits or loans from members. A committee was elected whose members knew and discussed

every deal of business and not infrequently acted as salesmen and warehousemen when need arose. Premises were bought, or more often rented, and a modest stock-in-trade of essential and non-perishable foods, such as flour, tea and sugar, was laid in.

The object of these societies was to sell reliable goods as near to possible at cost price. From the first, however, it was wisely seen that to cut prices to the bone would only, on the one hand, acerbate the antagonism of traders, and on the other, run the risk of serious losses if no adequate margin for handling, wastage, depreciation and so forth had been allowed. The system adopted was to sell, in general, at current rates, although the possibility of a well-planned campaign to reduce the price of some specific article was not excluded. Any surplus on the year's trading, after payment of strictly limited interest on shares and deposits, was repaid to the member in the form of dividend on purchase, which might amount to anything from 6d. to 2s. 6d. on every £ spent in the store. This is the famous co-operative "divi" valuable not only as a safe means of selling at cost price (the original purpose) but as a form of automatic saving (for the divi is only declared at yearly or half-yearly intervals and only paid out on request by the individual member) and has a powerful attraction to those who might not become co-operative members if the appeal lay solely in lofty social principle. The Rochdale Pioneers laid down certain principles which, even if some have been modified in one country or another, have remained the foundation of co-operative activity. These are—

(1) Open membership, no restriction of numbers within the area of the society's operations, no discrimination on grounds of sex, race, religion or politics.
(2) Democratic control, "one man, one vote."
(3) Fixed interest on capital (in order to prevent the reward of the enterprise from going to those who had merely been able to make the largest financial investment).
(4) Dividend on purchases (which became dividend on sales in farmers' marketing societies).
(5) Cash trading.
(6) Supply of pure and unadulterated products.
(7) Provision for education.
(8) Political and religious neutrality.

As the movement found its feet, the range of articles included in co-operative trade grew, including first a wider selection of groceries, then the simpler types of working clothes and footwear (non-perishable in the sense that though the moth may corrupt, fashion at least does not), then coal, furniture, perishable food, drugs, bicycles and finally the whole range of domestic consumption. The modern co-operative has become a department store. It is also, in most cases, a chain store as well, with a series of branches covering the districts of a large city or a number of country towns and villages. Sometimes this has been brought about by expansion from a single centre, sometimes by the amalgamation of several small societies founded as separate units in the days before motor lorries. At the same time service has been improved, shops are modern and well designed, goods are delivered to the members' house; there are cafés, hairdressers' shops, opticians and similar auxiliary departments.

Co-operative organisation has gone further than the multiplication of branches and departments. It was early realised that great economies could be effected if co-operatives could control wholesale buying and undertake manufacture. The first society at Rochdale had acquired a flour mill within a few years of formation and for a time made wholesale purchases on behalf of other societies. Most societies in Great Britain to-day have their own bakeries and milk pasteurising plants, many have jam and pickle factories, tailoring shops and other "productive departments." Some own farms. Wholesale trading and the most important branches of manufacture are, however, carried on by Co-operative Wholesale Societies. The relation of the Wholesale to the local retail society is the same as that of the retail society to the individual member. The retail society takes up shares in the Wholesale in proportion to its own membership. It votes in the quarterly meetings of the Wholesale, and the election of directors, it receives its share in any trading surplus in the form of dividend on purchase. The English Co-operative Wholesale Society owns factories producing a great variety of clothing, food products and miscellaneous supplies. It owns tea plantations in India and Ceylon and has offices or depots in the United States, Canada, Denmark, West Africa and elsewhere. It has a number of service departments, including the banking department, audit

department, legal department, architects' department, etc. Linked with it but a separate organisation is the Co-operative Insurance Society.

Side by side with the Wholesale, or rather with the two Wholesales, English and Scottish, is the Co-operative Union, originally an educational and propagandist body at whose meetings pioneers of the movement discussed its progress and planned for what was often a fairly remote future. The Union retains its educational character. It is responsible for the maintenance of the Co-operative College, at which courses of instruction are given to specially selected persons generally from the staffs of the British and other movements. It collects and publishes statistics. It watches over the position of the movement in national economy and is alert to take action if the movement appears to be threatened by new legislation or other discriminatory measures. As a result of what was felt to be such discrimination during the war of 1914–18, the British co-operative movement broke its long tradition of political neutrality and launched a political party of its own, which works in close collaboration with the Labour Party. But membership is voluntary and not all retail societies subscribe to the Party funds. The Annual Congress of the Co-operative Union, held in Whit-week and lasting four days, has become less and less the scene of academic discussion or propagandist lectures and more and more the parliament of the movement, at which general questions of policy are discussed and decided.

The British consumers' co-operative movement is the largest in the world to-day, measured in terms of membership or trade, with the exception of that in the U.S.S.R., where no other form of rural shopkeeping is permitted, and the movement is thus the sole supplier to the rural population. After the British, the largest movement in terms of membership, is that of France. The United States can show a group of co-operative associations described as "consumers," with membership nearly equal to those of France, and a larger turnover, but these handle petroleum products and other farm supplies on a far larger scale than ordinary consumer goods, and so are not strictly comparable. All the European countries have consumer co-operative movements similar in character to the British, and frequently on a similar scale in relation to their

national populations. Most have wholesales and unions, though sometimes a single organisation combines both functions. Most have banks and audit departments, educational institutions and annual congresses.

What relation do these highly developed organisations of a mainly industrial society bear to colonial conditions? Is there any immediate scope for the development of consumers' co-operation in the Colonies in time of peace when trade is not subject to controls? Before answering, it is desirable to consider again the factors which made the European and particularly the British movements a success in their early years. Private shopkeeping was, on the one hand, extortionate and on the other unorganised and inefficient. Industrial workers depended wholly upon it for all their daily needs. The degree of exploitation which they suffered called forth persistent effort and considerable immediate sacrifice on the part of the early co-operators. There was among them always a nucleus of men of high character and intelligence and with some little business experience, at least able to read, write and keep accounts.

It will be obvious that where the prospective member is only partly dependent on shops for his needs (where he is himself a food producer, for instance), where private trade has the backing of large-scale importing or wholesale firms, and where prospective members are untrained and perhaps illiterate, anything as complex as a consumers' store will be much more difficult to bring to success. Buying a wide range of goods wholesale calls for much technical knowledge and business acumen. Storage, especially in hot climates, sets technical problems of its own. Accountancy is much more complex than in a credit and thrift society or a one-commodity marketing association. Stocktaking requires experience as well as honesty. Full-time salaried staff of a certain level of efficiency is required from the outset. A well-meaning amateur may ruin the society. Too experienced a man may be beyond the control of the committee and may remseval hielf as a petty dictator or a crook.

Two experiences have perhaps some bearing on Colonial conditions. In some of the less economically developed countries of Eastern Europe, where no large industrial populations existed, the earliest consumers' co-operatives were

organised by government employees, including both civil servants in the ordinary sense and employees of the state railways and other enterprises. These people all existed on very small salaries and were not food producers. They also had a certain amount of education and administrative experience. The results were highly successful. In the U.S.S.R., on the other hand, where the workers on collective farms are largely self-supporting in bulk foodstuffs, the only form of trading permitted in the villages is the consumers' co-operative which sells clothing, foodstuffs, other than those locally produced (e.g. tea and confectionery) and the luxuries and amenities such as wireless sets, bicycles, books, toys and cosmetics. As production and distribution is centrally planned, this is a also a means of deciding to what objects the expanding purchasing power of the consumer shall be directed. For historical reasons, not particularly connected with the communist regime, a strong wholesale and manufacturing central organisation preceded the creation of most of the village co-operatives. To reproduce this condition in a colony would mean very active initial participation of the Co-operative Department in wholesale business, which in fact had to be provided in Ceylon when consumers' co-operation was introduced to implement the rationing system between 1941 and 1945. The department is hastening to transfer its commercial responsibilities to a properly constituted Co-operative Wholesale Society as soon as opportunity offers.

In some colonies it is reported that there is a real difficulty in getting consumer goods into remote villages at reasonable prices. In others the lower paid salaried classes have the economic need, the education and the stability of employment and domicile which should make consumers' co-operation a practicable undertaking. Either of these circumstances justifies experiment, but it will require particularly careful supervision and more than usual attention to the selection and training of staff. It will also require study of the anticipated competition and the sources of supply. If these are found to be linked it will be necessary to seek out alternative sources of supply, a task which under post-war conditions of shortage will often be of considerable difficulty. But there is no doubt of the need to make the attempt.

CHAPTER VII

Agricultural Supplies and Machinery

THE principal purpose for which small loans are made to the farmer is the purchase of agricultural supplies, seed, feeding-stuffs, fertilisers, sometimes tools and implements. It is generally found that most members of a society will borrow for purchases of the same type about the same time. It is a considerable saving and often a guarantee of quality if they can put through a joint order for seed potatoes or potash and receive their loans in kind rather than in cash. A credit society may, if its bylaws allow, arrange for the supply of seed or fertilisers, supplying them with the goods and debiting their accounts with the cost. Members will then sign a bond for a loan in the usual way. The credit society should not act as an agricultural store. In most countries where the credit movement is well developed, the system is to have regional agricultural co-operative stores, using credit societies as their local agents. In some countries, England, for instance, where there are no credit societies, the farmers are direct members of an agricultural requirements society, which not only keeps all lines of agricultural supplies in stock, but mills and mixes feed and also purchases certain commodities, especially grain, from the farmer.

The agricultural requirements society is an excellent means of interesting farmers in improved methods of agriculture. Superior seeds, bred in agricultural experimental stations, can be sold through it at reasonable prices. New types of fertiliser or new methods of applying it to the land can be introduced to the farmer. He will know that his own society is not pressing novelties on him merely in order to make a profit, and if he is also selling his produce through the same or another co-operative society, it will be possible to show him that the new methods have paid.

Heavy machinery is not usually sold by co-operative societies, and few small farmers can afford to buy it for themselves. A

good deal of progress has, however, been made recently in the co-operative use of machinery. The earliest societies simply owned a threshing machine, which travelled round from village to village or farm to farm of the members. Now, however, the idea has been extended to complete cultivating and harvesting units, tractors, ploughs, harrows, drills and binders, and the co-operative provides not only the implements but the skilled drivers and mechanics, it looks after repairs, and supplies petrol and lubricants. It is this complete servicing and operation as a unit which is the secret of success. Skilled handling is assured; there are no complaints about unreported damage by borrowers, and working one agricultural operation in with another, it is possible to keep the staff of the unit regularly and economically employed throughout the year.

CHAPTER VIII

Health

In countries with considerable accumulated wealth and advanced social organisation, it is usual for some sort of national health service to exist which extends medical services free or at low cost to the individual, to those classes—employed workers, mothers and babies, school children—who might not otherwise be able to afford proper care, and whose health is also of special value to the community. The exception to this rule is in the United States of America where belief in private enterprise and the rapid accumulation of private wealth have meant little interest in proposals for the national care of health.

Apart from the care of the individual, there are a number of problems of sanitation and hygiene which in advanced countries have been, on the whole, so effectively dealt with by public authorities that their solution is taken for granted. These include sewage, water supply, destruction of refuse, disposal of the dead, drainage of swamps, destruction of vermin, disinfection and inoculation.

In undeveloped and especially in tropical countries, many or all of these problems of public hygiene and personal care still lie wide open. Public health measures exist, but they make slow progress. In the first place the cost, when it has to be met out of public revenue alone, is extremely heavy; and in the second, popular ignorance means that much effort is wasted for lack of willing and intelligent co-operation on the part of the public. As ill-health diminishes capacity to work and to develop natural resources intelligently, these in turn diminish the wealth of the community and the resources available for social services, including the health services; thus setting up a vicious circle of a kind very hard to break.

An interesting way out, which tackles both the main difficulties, the cost of the services and the ignorance of the public, is offered by the co-operative health society, especially as developed in Yugoslavia between the wars. The 1914–18 war

left Yugoslavia with an appalling legacy of ill-health. There had been widespread starvation, many villages had been burnt to the ground, an epidemic of typhus had been followed by an epidemic of influenza. Malaria, always endemic in the marshy river valleys of the south, was spreading rapidly. Tuberculosis was widespread. Conditions even in undamaged villages were extremely primitive. Most people lived in one-roomed cottages, ill-lit and unventilated, sometimes shared with animals. Water was drawn from rivers or open wells. There was no proper system of sewage. Doctors were few and nearly all crowded into the towns, where alone a profitable private practice could be developed. Hospitals also only existed in towns, and the cost and difficulty of transport, as well as the cost of maintenance, put them out of reach of the ordinary peasant. The only health services provided sporadically in the country were those of the British and American Red Cross Relief Missions, which were due to withdraw as the war emergency passed.

Two young Serbian doctors who had been working with the relief missions, cast about for means of continuing their work. They were familiar with the agricultural co-operative movement, and knew that it had the support and understanding of the peasant. Beginning with this known method, they worked to get the villages organised in co-operative health societies. Often the economic argument was the only effective one. Many peasant families had little conception of the absolute value of health, but to point out that a man could get more land sown if he were not down with malaria every spring and autumn, carried some weight. It even helped to link human treatment with veterinary practice, for the most conservative peasant recognised that a sick horse was a handicap in getting a livelihood, even if he still looked upon a sick child as an act of God.

The Co-operative Health Society, as it has developed in Yugoslavia and other Balkan countries, usually covers two or three large villages, that is, a population of, perhaps, 4,000 or 5,000 persons. It is not established until the general approval of the villages has been obtained. The members are heads of families, and they pledge themselves to a small monthly contribution for each member of the household. As in the case of some of the simplest type of housing societies, the

voluntary labour of the members, their families, their oxen and carts is then mobilised, and on a carefully chosen site, a small Health House is built. This is primarily a surgery and dispensary, with doctors' living quarters attached. Later, it may be extended to include a couple of wards where patients from outlying villages can spend a few nights after a simple operation, as well as a lecture room for classes. Simple equipment, including surgical instruments, beds, and initial supply of drugs and biological preparations can be obtained through the National Union of Health Societies. The cost of equipment is met by the State in the form of a loan without interest. Small grants are also available for this purpose.

The villages are now in a position to invite a doctor to accept the practice. A house and a regular salary paid out of the monthly contributions of members awaits him. He is not paid in proportion to the number of patients whom he actually treats. The member and his family are entitled to free consultations. For visits to their houses, drugs, operations, confinements, they pay a small fee which goes into the funds of the society.

The duties of the doctor do not, however, stop at what may be called his panel practice. He is expected, in addition, to act as general public health and medical officer for the district where there is no government medical officer. Here his gifts of personality and tact are of great importance, for he has not compulsory powers; he must carry his committee with him and they in turn must persuade the village into action. The water supply is often the first point of attack. A village can be persuaded to give voluntary labour to the digging of good wells or the piping of a natural and uncontaminated spring. In the same way, the need for latrines and properly constructed middens can be demonstrated and general action secured. In malarial districts, the drainage of stagnant water near houses (one marsh was converted into a swimming pool), the spraying of water which cannot be drained with petrol, or the introduction of minnows, which prey upon mosquito larva, are all measures which an active health society can and will adopt under energetic leadership. Since the introduction of DDT during the late war, another means of combating malaria has been made available. Much has been done in the systematic and repeated spraying of cottages in Greece by military and

relief authorities. It is to be hoped that the health societies will be in a position to carry on this valuable work.

Another line of attack is through general vaccination or inoculation against epidemic disease, and here again the Health Society's doctor is in the best position to explain and secure general acceptance of such measures in the villages.

Finally, the doctor is expected to undertake general health education among his people. This takes the form of lectures to women and girls in the care of children and the sick, and in simple physiology. At the same time, classes for boys aim at awakening interest in gardening and poultry and rabbit keeping, with a view to improving what is often a very inadequate and ill-balanced peasant diet.

As already indicated, the Health Societies in Yugoslavia have their own national union, with medical and other staff, which gives constant guidance to societies in their early stages, promotes new societies, acts as a wholesale agent for supplies of drugs and hospital equipment and as a selection board for the recommendation of doctors to fill vacant posts. It is also the link between the societies and the Ministry of Social Welfare.

Much space has been devoted to a description of the Yugoslav societies since they have had at once the longest and most varied experience, and have served as a model to others in the Balkan countries. Societies covering some part of the health needs of the community also exist in India, Ceylon and probably elsewhere. Some of them have limited their activities to malaria, beginning with the distribution and compulsory consumption of quinine. Others have concentrated on public hygiene, especially water supply and latrines.

The only other country in which the comprehensive type of health society is at all advanced is the United States, where the opposition to any form of public health service or national health insurance, leaves a gap unusual in an advanced and wealthy community. This gap has been filled experimentally, and with considerable local success, by co-operative health societies covering consultations and operational and hospital treatment, but of course omitting the public hygiene, epidemic control and health education, which are so important in the Yugoslav scheme.

One or two well-organised co-operative societies, formed primarily with other objects, have also undertaken health

services—for example, the consumers' movement in some of the cities of the Netherlands, and the Workers' Productive Federation in France. These are in effect health assurance schemes with clinics, medical advice, operational and hospital treatment. They are mainly urban, and are made possible by the backing of a strong co-operative organisation with funds derived from other activities. They represent, in fact, the social use of trading surplus.

In many parts of the Empire it is too early to start health societies with doctors on the Yugoslav plan, since trained doctors are not yet available. But they will become available when the proposed training facilities are fully developed, and when they are available, the full plan may be attempted. In some territories local authorities provide dispensaries and make grants for health purposes. In that event, health co-operative societies may be formed with a view to supplementing the work already being done by the local authority which, when it is seen that the people are helping themselves, may be persuaded to increase their work. Health co-operatives can operate side by side with government and local authorities. If there is no dispensary, the people may build one and ask government or the local authority to arrange for the visit of a dispenser and the supply of drugs. If the water supply is inadequate the society may offer labour or cash and ask the government or local authority for technical help, the provision of tools, pipes, cement and skilled workmen. Similarly, the society may ask for help in draining a pool near the village.

It may be argued that all these matters should be dealt with by government or the local authority and that there is no need to create another body to deal with them. But a co-operative society consists of many of the local inhabitants grouped as a body. Individually, each one wishes for improvements in health conditions; as a body they can set about getting these improvements done. If they are going to wait until their turn comes round in any government health plan, they may have to wait many years. If they start by doing a little themselves, they will probably get their improvements much earlier than if they had waited passively for the government to do something.*

* Government funds are not limitless and it is not unnatural for governments to prefer to spend them in areas where the people have already started on their own to improve health conditions.

CHAPTER IX

Housing

THE provision of flats or houses for people of small or moderate means is a frequent object of co-operative organisation. It takes many forms. One of the simplest was shown in a Bulgarian village, the people of which decided completely to rebuild all their houses. They gave their labour, loaned their bullock carts and set to work to make mud bricks and cut door and window frames. Little except glass, nails and paint had to be bought. They then drew lots for the house to be built, and in the time which could be spared from agricultural work the whole village turned to and built it. When it was built and the old cottage pulled down or converted into a stable, they moved on to the house on which the next lot fell.

In Austria after the first world war, a number of small houses were built by unemployed professional people, who had obtained the materials through a co-operative buying pool.

Except in countries where conditions are still very simple or after some exceptional dislocation of the economic system, it is more usual for co-operative housing to be carried out through professional builders. In some cases builders have themselves formed co-operative societies and accepted contracts for the building of houses. This, however, is more in the nature of a workers' productive society. In most of the successful examples of housing societies (those, for example, which rebuilt Warsaw and other shattered European towns after the First World War) the first step was the organisation of a society of people who required houses or flats. Usually these were people engaged in the same or similar occupations with similar means and tastes, who were prepared to live together as a group, though not in any sense as an organised community. They took up shares and guaranteed either to rent a house or to buy it on a system of payments deferred over a number of years. Sometimes they made deposits. On

this basis the society was able to raise money on loan, either from a bank or from governmental sources, occasionally from an established co-operative movement with accumulated capital to spare.

Actual construction was entrusted to contracting builders, who might or might not be co-operatively organised on their own account. Flats or groups of small single or double houses were carefully planned with modern labour-saving devices and a pleasing appearance. After building was complete, the society remained to collect payments and discharge debts, and also to act as a tenants' council in all matters affecting the use and upkeep of the property.

A modification of this process has been where a consumers' co-operative society has acquired land and itself constructed a group of houses which it has let to its own members or occasionally to the general public. There are a few examples of housing estates of this type in England, but as a development of consumers' co-operation it has never been of much importance. A much more striking example is the garden city of Freidorf in Switzerland, built by the Basle Co-operative Society. This not only provides attractive and well-built houses at moderate rents, but has been designed as a complete community, with church, schools, public hall, co-operative stores, gardens and recreation grounds. Such a development was of course made possible by the very considerable capital resources of the large and long-established Basle Co-operative Society and by the general prosperity of the Swiss workers and professional people, which enable them to plan and achieve a number of amenities which would be beyond the immediate means of poorer communities, even with the help of a co-operative pooling of resources.

There remains the building society, as established in Great Britain. This, paradoxically enough, does not undertake actual building. Its ostensible object is to lend money on reasonable terms to people who want to buy or build a house. Funds are derived from the shares and deposits of members who may intend at some future date to withdraw their savings and build a house, but who are frequently merely seeking a convenient investment. The status of the building society as a co-operative concern is thus rather tenuous, and many British building societies are in fact little more than investment

trusts for people with small savings, the investment being mainly in real estate. The Co-operative Permanent Building Society has always preserved its co-operative character and drawn its directorate from persons active in the co-operative movement and is, from that point of view, the best example of its class.

In many parts of the Colonial Empire people are inclined to wait too much on government action. They adopt the attitude, "What is government or the local authority going to do about this?" But it is not difficult for them to think out ways of helping themselves, as in the Bulgarian village quoted above. A group of government employees, for example, in an urban area, can get together to form a co-operative building society. The first step will be to collect sufficient share capital to enable the land to be bought, and well-wishers may be persuaded to make long-term deposits, repayable after ten years. They will, of course, expect interest. The first step will be the purchase of the land and then the society will have to look for long-term finance. Expert advice will be required to ensure that the true final cost of the houses (including roads and drains, water and electric light, if any) is properly worked out, and from that cost it will be possible to work out the monthly amount which each member will have to pay for his house over a period of years. It should be possible so to arrange these payments that after 15–20 years each member may become the owner of the house, his monthly payment being composed partly of interest on the loan and partly of repayment of capital. It may be objected that government employees are liable to transfer and therefore it would be unwise for them to commit themselves to a house in one area. But even if they are transferred, it may be for only a short time, and in certain offices transfers are not frequent. However, the house can usually be let at a rent which will cover most of the monthly payment, and the balance can be paid by the member as a form of saving. It is good for a man to aim at having a house of his own on retirement.

In many rural areas in the Colonial Empire people are used to communal action in clearing drains and paths, etc. and it is a small step to communal action in building new houses. Governments will probably be prepared to help by providing models of better houses and by lending skilled craftsmen if

required. Cash will be required to purchase a few manufactured articles, and this will have to be found by each prospective house owner when his turn comes to have his house built.

The important thing is for the people to decide on communal action and to work out for themselves the best way to do it. Just as in some areas everyone in the village gives up a day or two to clean a path, so they may decide to give up so many hours weekly to the new housing scheme. And each man will do what suits him best. One will cut timber, another make window frames, a third will make bricks, a fourth will thatch roofs, and so on.

Registration of enterprises of this kind as co-operative societies is essential, so that people may know their rights and duties, the accounts may be kept in proper form and the enterprise may be supervised and helped by the registrar and his staff.

CHAPTER X

Stock Breeding

STOCK breeding is a comparatively simple type of co-operative service which arouses lively interest in villages, and besides being useful in itself can sometimes be used to lead up to more complex activities. In most undeveloped countries village livestock would bear improvement and work has in fact been done in government stations and college farms for the improvement of native stock by improved feeding and selected breeding or by crossing with imported strains. Young animals are available for distribution to villages, but the problem is to secure proper care and feeding and the maximum use under controlled conditions. Distribution to individual farmers rarely achieves all these ends.

In many European and some Asiatic countries, the solution is in the co-operative stock breeding society. This is small and localised, comprising only those farmers whose herds can be conveniently served from a single centre. The society acquires, generally, but not always, from a government station, one or more bulls, stallions or boars. The same society does not as a rule handle more than one type of animal. A stable is generally built by voluntary labour. The cost of purchasing animals is met partly from members' shares, usually supplemented by a loan guaranteed by members. It is generally desirable that animals should be insured against loss.

The usual system is to entrust the care and management of the animals to one member of the society, who pays himself for his trouble by taking half the service fee, the other half going into the funds of the society for the eventual replacement of stock. The member chosen is usually a farmer himself, with a reputation for knowledge of stock. It is obviously not desirable that he should be a man with too much land and too many business interests of his own, or he may neglect the business of the society. It is also undesirable that he should

be one who has wholly failed to make a living from farming on his own.

Most stock breeding societies retain contact with government breeding stations and receive advice as well as replacements of stock from them.

A further advance on the stock-breeding society is the artificial insemination society, the principal advantage of which is that, as a wider area can be covered, and a larger number of members' animals served, it is possible to make economic use of more valuable breeding stock. Several societies of this type exist in Great Britain, Denmark and elsewhere, but it is doubtful whether for the present they would have any particular advantages in colonial conditions.

The requirements are then a stall, an animal and a man to look after the animal. The stall can be built by a combination of cash and voluntary labour. The man must be as carefully selected as the animal, and the animal itself can often be provided by government on loan from a government stock farm. Fees will have to be fixed to cover the cost of fodder over the year and payment for the man's work. Alternatively, each member may be asked to provide a share of the fodder off his own farm, thus reducing payments in cash for service.

CHAPTER XI

Fisheries and Forestry

THE fisherman in most countries is in a very similar position to the peasant. He owns his boat, perhaps on a share basis with a brother or cousin, as the peasant owns his farm, but before he can go fishing he must also have nets or lines and hooks, bait, and usually paint, tar, canvas and ropes for his boat. He must feed his family while he is away fishing or before the fishing season begins. All these supplies he must in most cases buy on credit, since he has no ready money, and the merchant will charge him what price he thinks fit. Even when the fisherman has caught his fish, he wants acid or salt in which to pack it, if it is to reach the customer in good condition. A cold store or refrigerating ships or wagons might bring it to market in even better condition and earn him a better return. In any case, he will need barrels or boxes. Much fish is also canned, and the canner is in a position to make much more profit than the fisherman. Finally, fishing is a risky profession. Boats and men are lost, and if vessels are not insured great suffering may result. The building of a new vessel may be beyond the resources of one man or even of the one or two close relations whom he can trust without a formal agreement.

Co-operative organisation has been worked out to meet all these needs of the fisherman. In the first place, there are fishermen's credit societies which make loans for productive purposes, exactly as is done by the farmers' societies. Loans may be long term, for the purchase or building of a fishing vessel, or they may (more often) be short term, on the member's personal character, for such things as nets, gear and salt, likely to earn the repayment of the loan within a season. The next step is a fisherman's store, which keeps in stock all the needs of boats and men, including, in cold climates, sea boots and clothing. In some countries a co-operative society of coopers may work alongside the fishermen and sell barrels to

them. It sometimes happens that the small fish used as bait arrive ahead of the larger fish, and depart before them. In such cases a co-operative cold store where bait, when caught, can be kept fresh till it is needed, is of great value.

Co-operative processing of fish may take the form of a drying room in countries where the weather for outdoor drying is unreliable, of a packing shed, a cold store or a cannery. Co-operative lobster canneries have been particularly successful in Nova Scotia, where, however, the fishermen also own co-operatively, a fast schooner taking live lobsters of the best quality to the Boston market. Where fish is usually sold wet to the shops or to dealers, a co-operative society may usefully run a market with sales made by auction or otherwise, but under the control of a market supervisor appointed by the fishermen, whose job it is to see to fair dealing and to break up dealers' rings when they begin to form.

Co-operative boat owning begins with the group who will actually form the crew (sometimes, in the case of a large vessel joined with some of their shore-keeping, perhaps retired friends and relatives) who are prepared to accept joint and several liability for the loan needed to buy either the vessel or the timber and other materials from which the crew can build a vessel for themselves. Afterwards the boat can be insured through a co-operative insurance society, though nets and gear are too perishable and their loss too little subject to check to make insurance possible.

A number of fishermen's societies also run social services for their members. Such services are often badly needed, since fishermen in most countries tend to be poor, illiterate men, with less security in their lives than even the small farmer. Life insurance and pension schemes, clubhouses and canteens, homes for aged fishermen, schools for their children and sometimes for the men themselves, are among the undertakings which have been successfully carried out.

The hazards of the trade, the simplicity of most fishermen, the perishable nature of the produce which gives the producer little bargaining power, and the irregularity of supplies, which tends to gluts and broken connections with markets, are the chief obstacles to co-operative organisation of fisheries.

Co-operation in forestry is of two distinct kinds. In the first place forest owners (who in Northern Europe may be quite

small farmers whose land includes a stretch of woodland) may join together to secure the best advice on forest management, to buy seedlings for their plantations, perhaps to run a sawmill and market the timber together.

In the second place, much forest is the property of the state or of village authorities. It is exploited by contractors bringing their own equipment and a gang of labourers. In several countries, notably Bulgaria and Rumania, these labourers have organised themselves into co-operative societies, appointing their own secretary-foreman. They accept contracts, usually from local authorities, to fell a stand of timber and convert it into marketable products for building, firewood, pulp or other purposes. They are generally able to borrow from a co-operative bank in order to pay themselves wages while they are working and before the timber is sold, as well as to provide themselves with tools and sometimes also with a moveable sawmill, light railways and trucks. Such co-operatives may be linked up with others engaged in the later stages of wood-working, such as cabinet making.

Simple forms of co-operation for these purposes probably exist unrecorded in many forest countries. It is known, for instance, that the charcoal burners in the Atlas mountains of North Africa work on this plan, though they have no registered societies. Careful exploitation of forests, without over-cutting, erosion or the destruction of the way of life of forest peoples is one of the needs of many overseas territories. The foresters' co-operative society is one of the ways in which this may be carried through, with the goodwill and active help of those most concerned.

CHAPTER XII

Co-operative Industries

ONE of the first ideas for a co-operative undertaking was that the workers in some trade, boot-making, printing, metal-working, should join together to own their workshop, tools and machinery, buy their own raw materials, work them up under the direction of a foreman or manager appointed by themselves, and sell the product to the public, dividing the profits among themselves. Co-operative societies of this type actually exist in England, France and other countries. They only carry on a small part of the industry of these countries. because modern industry requires increasingly costly installations of machinery and has to be conducted, in most cases, on a very large scale if it is to pay. Associations of workers find it impossible to raise capital in these amounts, and the problems of marketing the products of industry on a large scale are also not easy. Where the productive societies, as they are called, are doing well, it is usually because they can, as in England, draw capital from the consumers' co-operative movement and also find in that movement a ready market for the boots and shoes and hosiery they turn out, or, as in France, borrow from the state and work on government contracts for telephone equipment or postmen's uniforms.

The position may be rather different in countries where industry is less developed, and a change from village handicrafts to factory work is only just taking place. The industrial co-operatives of China played a valuable part in organising the labour of Chinese refugees from the war areas and in producing the uniforms, blankets and small arms which the Chinese government needed to carry on the struggle. The Soviet Union has also found room inside the state plan of industrial production for a number of workers' productive societies or *artels* carrying on light industry. Besides utilitarian work in the clothing, furniture making and similar trades, these *artels* have been the means of preserving the traditional

peasant arts of Russia, such as embroidery, wood carving and rug-making, and adapting them to the use of modern life.

The form of a workers' productive society is similar to that of other co-operatives. Each member contributes a share to the undertaking and has one vote in the councils of the society. Young members are not always eligible for membership until they have reached a certain degree of skill and seem like becoming members of the staff. Some of the larger societies run apprenticeship schemes and take great pains with the training of young entrants. Many also have pension schemes for retiring workers and arrangements for medical treatment and care of the sick.

The establishment of a workers' productive society is well worth considering wherever there are local industrial needs which could be met locally, or where there is a traditional art or craft which needs to be organised on more modern lines. Sometimes developments of this kind would follow the distribution of electric power to rural areas, which would make possible the use of power-driven machinery. Electrical distribution at the village level may itself be undertaken by a co-operative society which supplies current to domestic consumers, to farms, to farmers' co-operative mills or dairies and to rural industries. Such co-operative industries may be a means of employing the members of a smallholders' family who are not fully occupied on the farm, or even of providing employment mainly at those seasons when there is not much farm work to be done.

Before promoting such an enterprise, however, it is well to bear in mind the difficulties, the need for relatively heavy capital, and the problem of marketing the product profitably, as soon as supplies exceed the immediate need of the village, and in particular the dangers of competition with the mass-produced articles of large city or overseas factories. A further difficulty is that of management and discipline. Members of a farmers' society or a consumers' society are only expected to sell to it or buy or borrow from it, and their dealings with the society may only take place half a dozen times in the year. A little tact and firmness should keep them on their best behaviour when these occasions come round. But the members of an industrial society are together all day and every day for the most important activities of their lives, while discipline

has to be enforced by a committee and a manager whom they themselves have chosen and whom they can dismiss if discipline becomes irksome. A good many societies have failed through internal quarrels or slackness. This is where some participation by the consumer of the product, especially if this be a co-operative society, is generally a steadying influence.

CHAPTER XIII

Co-operation and Education

THE Rochdale Pioneers included a provision for education among the fundamental principles of co-operation. By this they did not mean training in the methods of carrying on a co-operative society or even in alert and public-spirited membership, though both these forms of training were to come later. They were concerned rather with the general education of the member, in the days before the public authorities had provided for the education of every child in Great Britain, and more especially with the members' education as a citizen. To this end they provided reading rooms and libraries, often the first libraries open to the public in many of the smaller industrial towns. Later public education and public libraries made this work less necessary, but the co-operative societies continued to organise and finance classes for their members and employees in such subjects as economics, sociology, industrial history, psychology, literature and languages.

In other countries where public education is still incomplete, co-operatives have been active in reducing illiteracy. The fishermen's co-operatives, for instance, of Spain, Hong Kong and elsewhere, have arranged classes in reading and writing both for their members and their members' children. Village societies in India have done the same.

Apart from this, the co-operative movements of most countries have established training systems for their staffs and for their members, especially those who take an active part in the movement either as members of committees or through auxiliary organisations like women's guilds. These schemes include evening classes running continuously for six months or a year, short residential schools, lasting from two days to a week, and full courses of one or more years at a co-operative college, where the students learn the principles of co-operation, its economic and social background, and all

the practical details of running different types of society, book-keeping, stock-taking, warehousing, the handling of different goods and processes, the conduct of meetings, the approach to members and customers.

But co-operative movements not only make provision for education. They may be regarded as highly educational in themselves, since they give members on the one hand a training in the management of their own business and financial affairs, and, on the other, an initiation into democratic responsibilities and democratic rights. The adult member of a society probably undergoes this training without noticing it, intent only on the advantages which the co-operative brings to him and his neighbours. But in some countries the educational value of the co-operative method is so highly esteemed that school co-operative societies have been set up, run by the children themselves on correct lines, with meetings and committees, minutes and accounts, through which they make weekly savings deposits, or buy pencils and textbooks, or even keep rabbits or grow vegetables for sale.

CHAPTER XIV

Limited and Unlimited Liability

In some co-operative legislation it is expressly provided that the liability of a society of which the primary object is the creation of funds to be lent to its members and of which the majority of the members are agriculturists, and of which no member is a registered society, shall be unlimited. In other words, the law provides that the liability of the village co-operative credit society should be unlimited. It will be seen that this provision is omitted from the Model Ordinance and that it is left to the discretion of the Registrar to register societies with or without limited liability. Limited liability is later in date than unlimited liability, and Calvert gives Marshall, in his *Industry and Trade*, as authority for stating that it was not until 1862 that the full privilege of limited liability became general.

Limited liability arose through the inability of individual shareholders to face the possible liability in case of a failure of an enterprise requiring a large amount of capital. The larger the enterprise, the more capital was required and the greater the number of shareholders. In co-operative societies, liability is usually limited to the share capital taken up by each member, although in some societies provision is made in the bylaws for the liability to be limited to so many times the value of each share. This increases the credit-worthiness of a society at the start when a reserve fund has not yet been built up, and is to be recommended.

Under the Model Ordinance, a society which includes at least one registered society among its members must be registered with limited liability. Other societies which are usually registered with limited liability are urban thrift societies, sometimes called savings banks, marketing societies, societies for processing agricultural produce such as rice milling, oil producers, etc. etc., societies for the provision of stud bulls, use of improved seed, provision of seedlings and the use in

common of agricultural machinery, consumers' stores societies and better living societies. What may be called secondary institutions, such as unions of societies with similar objects and central banks, are all registered with limited liability, since societies are members. The advantage to the prospective member of limited liability is clear. He knows what he will lose if the registration of the society is cancelled through failure to meet its obligations.

But when societies with limited liability require credit from a financing bank, whether co-operative or more especially commercial, they are not so likely to obtain the full amount of credit required if their share capital is not large—and it usually is not large—and their reserve fund has not yet reached any sizeable amount. And in urban credit and thrift societies which accept deposits, not only from members but also from the general public, the need for a reasonable amount of share capital and for the quick growth of a reserve fund will be apparent. In this connection it may be noted that it is often provided in the bylaws of such societies that all profits should be put to the reserve fund for the first few years, and that no dividends should be paid on share capital for that period. This is an excellent way of strengthening the credit-worthiness of a society, both materially, owing to increased reserves, and morally, as depositors and financing banks will see that the members intend to help themselves by refusing to accept dividends until there is a solid reserve fund.

Legally some societies have to be registered with limited liability. Others may be registered with either limited or unlimited liability.

What does unlimited liability mean, and how does it affect the members?

Unlimited liability means that all the members guarantee all their possessions to back the society. That sounds frightening, and it is usually a good sign when intending members at the start refuse to form a society on those terms. "What!" they say, "Am I to allow all my possessions to be used as a guarantee that my neighbours will pay their debts to the society?"

The example of a rope, composed of many strands each not so strong by itself, but when combined with other strands able to take a heavy weight, will come to the mind. And at this

point the co-operative organiser will begin to discuss the meaning of unlimited liability and how in societies in parts of Europe and in almost all the village credit societies in India, Ceylon and Cyprus, it is the rule and not the exception.

A society is a corporate body (see Section 8 of the Model Ordinance) and it is the society, not the members personally, which enters into contracts. In some legislation, e.g. Cyprus, for the avoidance of doubt it is laid down in the law that members of a society shall, only on the liquidation of a society, be jointly or severally liable for and in respect of its obligations and further, that in any legal proceedings against a society, no member shall be made a party thereto either by name or in his capacity as a member. The society is a body corporate, and this reply should satisfy the man with greater possessions than those of his neighbours, who is doubtful of joining a society with unlimited liability. And it should also be stressed that the liability is what is known as contributory. It does not come into operation until the society is in process of being dissolved (see Part VII of the Model Ordinance), and then only if the share capital, if any, and the reserve fund, to which profits have been credited in the past, are unable to meet the society's debts. And since it is contributory, it means that the total deficiency is divided out equally among the members. Let us suppose that the total deficiency after the share capital and reserve fund have been used to pay part of the society's debts, amounts to £50. There are 50 members, and each is called upon to pay up £1. All pay except 10, who have no money and no assets. The balance is the £10 which is divided up again between the 40 members who paid the £1. Thus the sum total—at worst in this case—on account of the unlimited liability, comes to £1 5s. per member. So much for what unlimited liability may mean if the society crashes. But there are many safeguards against this event, and there are many advantages to members as a whole if, after due thought by them and careful explanation of the organising staff, they are prepared to assume unlimited liability.

First, the safeguards:

(1) Careful selection of members. It is up to the people who intend to form the society to join with such of their neighbours whom they know to be hard working and whom they know they

can trust. This does not mean that only those who have a certain amount of property should join. On the contrary, the society should be open to all sound people in the village, whether they are large or small people in the way of possessions, but they should be reliable.

(2) The committee decides on what loans should be issued. The committee is elected at a general meeting of all the members, and it is for the members to elect the men who they think will best serve their interests, who know their own business of farming—for these village societies are composed mainly of farmers—and who know what the loan requirements of each individual member should be. It is unlikely that the committee will act foolishly in the matter of loans, though it is possible to make some mistakes through inexperience.

(3) The limits to the amount of money to be borrowed by the society are fixed at the general meeting. If members feel that the total sum proposed to be borrowed by the society is too high, and might involve the society in difficulties of repayment, and thus lead to dissolution and the enforcement of the unlimited liability, they can vote for a smaller total. In addition, the Registrar has power to reduce the amount voted at the general meeting if he thinks that it is too much.

(4) The right of each member to examine the books of the society. It may be argued that where many people are illiterate, this is no real safeguard, but if members ask the secretary or another literate member to read out the list of loans they will soon get to learn what is going on, and, if they wish, they may call a special general meeting to discuss the committee's conduct of affairs.

(5) The right to resign. If a member is dissatisfied with the committee's conduct of affairs, he may resign from the society at any time. There is, however, a provision in the Model Ordinance that the liability of a past member for the debts of the society as they existed on the date on which he ceased to be a member, shall continue for a period of two years from that date (Section 29). This is meant to safeguard remaining members and also depositors who, when they deposited their money with the society, knew that there were 40 members, including X and Y, both of whom being men of substance, and on that account they entrusted their money to the society.

If X or Y resign, depositors will probably hear of it and may want to withdraw their money. In any event, X and Y will still be liable for two years.

(6) There are two sureties for each loan. The duties of the sureties are to watch and see that the loan is being used for the purpose for which it was asked, e.g. to see that where a member has applied for a loan to buy seed, he not only buys the seed but sows it, and that the money is paid back on the due date shown in the bond. If the member fails to pay, the committee asks the sureties to do so. It is therefore the committee's duty to see that the sureties are reliable people and that they know what will happen if the member does not pay in time.

Campbell writes in his *Co-operation for Economically Undeveloped Countries*. . . . "The committee should also watch out for the 'you-scratch-my-back-and-I'll-scratch-yours' method of suretyship, whereby A with B and C as sureties, B with A and C, and C with A and B, which for practical purposes means three loans without sureties. . . ."

(7) The call on share capital to meet the society's deficiencies. In the event of dissolution, the amount of share capital, if any, subscribed by the members, will first be used.

(8) The reserve fund. This, too, will be used to meet the society's deficiencies, and if the society has been functioning for some time, it should have grown to a reasonable sum.

Calvert says: " . . . Unlimited liability is protected . . .; in a credit society it is further safeguarded by the restriction of loans to productive purposes, so that the borrower will be financially stronger after expending the loan than before; by the insistence on sureties and on punctuality of repayment; by supervision of the expenditure on the object of the loan and the power to recall if the money is misapplied; and, finally, by the building up of a compulsory reserve which is declared indivisible, even in the event of the dissolution of the society. . . ."

So much for the safeguards. What are the advantages of unlimited liability to the member?

The most important is the general credit-worthiness of the society, resulting in its ability to attract deposits and obtain credit from banks, whether co-operative or commercial.

Where it is known that a group of fellow villagers have, as it were, pooled their resources for the purpose of helping themselves and each other, the general public is more prepared to trust its money with that group than with a group which has restricted the liability of each member for the debts of the society to the share capital or a small multiple thereof. The banks, too, are more ready to help societies with unlimited liability. And the more enlarged benefits of co-operation can be obtained more easily and more quickly where there is a body of village societies of unlimited liability from which will spring the first stage in secondary co-operation, the central bank.

It is often argued that unlimited liability in countries where there are no secure title deeds for land is not worth much, and that, since limited liability is less frightening—and incidentally much easier to explain—societies should be formed with limited liability. But the creation of secondary institutions for societies with limited liability is a much slower and more difficult task, leading to delays in the receipt by the members of the village society of the full benefits which they are entitled to get.

CHAPTER XV

Secondary Institutions

In Section 4 of the Model Ordinance there is a reference to "a society established with the object of facilitating the operations of . . ." a co-operative society, and in Section 5 there is a reference to "a society of which a member is a registered society." The phrase "secondary institution" is not used in the Ordinance or the Rules for the reason that where societies combine together to facilitate their operations, they form a society which is registered in the same way as a society composed of persons as members. A secondary institution is a society of which the members are either societies or societies and persons. The phrase covers central banks, marketing and processing unions, wholesale societies, audit and supervision unions or societies and any group of societies registered as a society with specific objects.

These institutions have the same duties and privileges and rights and liabilities as primary societies (those of which persons are members). They are registered in the same way, are subject to inspection and audit, and in case of failure the same process of liquidation is applied. They are co-operative societies registered under the Ordinance, and the phrase "secondary institution" is used to cover all the varying types and to distinguish them from primary societies.

The establishment of the first central bank or union in a territory is rather a problem. The staff are inexperienced in such matters and the societies more so, and the following story of the establishment of a central bank in a small territory may be of value to Registrars and their staffs where a central bank has not yet been started. In the territory in question there was a number of credit societies with unlimited liability. Many were hopeless, some were in process of being reorganised, a few were reasonably good. The amount of "owned" funds, that is, of money which had accumulated in the reserve funds, was very small in almost every society. In addition, for reason

which it is unnecessary to go into, the name of co-operation was not good. People did not believe in it and there was much mistrust. But there was a great need for a central bank, to provide funds from which the societies could give short-term credit to their members, and to purchase fertilisers for distribution by societies to their members. The first task was to persuade the members of committees of societies that by the establishment of a central bank the societies would be benefited, and to give them confidence. "How can we, farmers living in villages, run a bank?" was the first reaction, and the second, "Why should we give up part of our reserve fund to form a bank to be run by other people?" The general feeling was that a lot of money would be required, that the societies had not got any money, that anyhow they could not run a bank, and the whole affair was hopeless. When it was explained that it was not intended to ask the government for money for the central bank, the affair was looked upon as even more hopeless. For a time the prospect looked bad. But gradually the societies were persuaded, and in due course the form of application for registration appeared. The proposed bylaws, prepared in the Registrar's office, were based on the bylaws of a central bank in Ceylon, and it was explained to the committees that if the bylaws worked in Ceylon they could be made to work locally. This was not a very logical argument, but it was accepted. A small amount of capital was subscribed by each prospective member society; the cash was deposited in a bank before registration to ensure that there was no change of heart, and the society (a co-operative central bank limited) was registered with approximately 50 members (all being societies) and a total share capital of just under £600 in cash. A room was made available in the Registrar's office as an office for the bank and the appointment of a paid secretary was considered. At the time his future career was far from promising and his prospects of pay uncertain. The first general meeting was duly called and attended by representatives from each member society, travelling expenses being paid by the society, the committee was elected and the secretary was appointed. The bank was in being. It was agreed that the committee should meet once monthly and that societies should pay travelling expenses. Funds for the purchase of a cupboard, table and chair and of books and forms, etc., were available

from the share capital. There were also enough funds from the share capital to cover the secretary's pay for a few months at least, until the bank got going and made an income for itself.

The needs of the member societies at this stage were funds for short-term credit purposes, for seed cultivation and harvesting expenses and for the purchase of fertilisers. There was no question of attempting to cope with the problem of old debts. The provision of fertilisers was comparatively easy. Previously members had bought on credit from middlemen and had had to pay the middleman's price. So societies were asked to state their requirements and a firm order was placed with the importer, who agreed to give credit to the bank at a fixed rate of interest. It was arranged that societies should draw their previously stated requirements direct from the importer and distribute among the members, each member signing a bond to repay with interest at harvest time.

Supply by this method resulted in a considerable decrease in price per bag of fertiliser to the members, who saw a tangible result for their membership. Many more people started to join societies, and non-members were benefited too, as they learnt the price of fertilisers to the members and, unless hopelessly indebted to the middleman, were able to get his price reduced.

Not only did the bank make a profit on the transaction by making a small addition to the price paid to the importer per bag, but the societies did so as well, and the bank's expenses for the first year were covered in this way.

The problem of finding further funds to provide societies with short-term credit to give to their members was solved by an agreement between the Central Bank and Barclays Bank (D.C. & O.) under which the latter guaranteed an overdraft up to £50,000, later increased, to be secured by bills given to the Central Bank by the member societies. The procedure adopted was for the society to send in a list of members requiring short-term loans for certain purposes. This list was scrutinised by the Registrar and the committee of the Central Bank and also by the local manager of Barclays. If approved, an order to draw the cash from the nearest branch of Barclays was sent to the society, which signed a bill to pay on a suitable date, e.g. harvest time. The members in heir turn signed bills to pay the society a week or so before

the date on which the society was due to pay to the central bank. These repayments dates are of the greatest importance and must be fixed at a time when it is convenient for the member and the society to pay.

A card index was started in the Central Bank giving particulars of each society, its applications for loans and its repayments, and after a few years, the short-term credit needs of each society from the Central Bank became well known, increased as the number of members increased, and decreased as the society attracted to itself deposits. Later on it was found that certain societies required funds at certain times of the year, depending on the crops, others at other times. At certain seasons of the year the Central Bank's overdraft at Barclays was fully taken up; at others, the Central Bank had a credit balance. Some societies, in due course, always had surplus funds which they kept at the Central Bank; others were known always to be in need of funds. And every year there were new societies to join as members of the Central Bank.

After one or two years' experience the central bank gave open credits to certain selected societies, i.e. they were allowed an overdraft up to a certain amount at any time, and lists of prospective loans were not required. This facility was given only to those societies which the audit report showed as being efficiently run on co-operative principles, and the policy was to give the facility as soon as a society proved itself.

This example is given to show that, however hopeless the situation may appear, a central bank or similar institution can and should be started, provided always there is a group of reasonably efficient primary societies as original members, who are likely to benefit from the operations of the institution. Where a territory is large, and societies exist in areas far away from other areas, more than one central bank may be required. In that event, the same method may be adopted, and the local co-operative officer will have to guide the bank in his own area. In due course the area central banks will probably form a territory bank, which will work in with the headquarters of a local commercial bank, and it may be found convenient to do this as soon as more than one local central bank is registered.

As with finance, so with marketing. If there are societies formed for the sole purpose of marketing, they will have to

be formed into a central marketing society or societies and a territory-wide society will be formed in due course. But if the societies combine credit and thrift with marketing, and a central bank or banks have been formed, there may be no need for a separate central marketing society, since the co-ordinating work can be done by a marketing sub-committee of the committee of the central bank. Alternatively, unions of societies, with the object of marketing, may be formed, which may be co-ordinated by the sub-committee mentioned above.

The formation of a co-operative wholesale society should be approached with care. If there are even a few stores societies with a good turnover there should be a wholesale society to effect purchases on their behalf. But the difficulty is to ensure that the member societies will remain loyal to the wholesale society. They may find it easier, though not cheaper, to make purchases through local suppliers. They are unwilling to order ahead, and they are uncertain of the quantities required. There are, however, certain lines where the demand may be foreseen with a reasonable degree of accuracy, and it may be considered advisable to begin the establishment of a wholesale society by trying out the societies with a system of indents. Then, as soon as their requirements in common of certain articles are known, the formation of a wholesale society may begin. In the interval, the indents can be dealt with by the central bank, which later on will probably have to finance the wholesale society. Another difficulty is to find a fit person to be the secretary and manager of a wholesale society. There will be many applicants for such a post, most of whom will not be suitable.

It has been shown in this chapter that there is a need for secondary institutions to be started at the earliest possible date. That date will depend on the availability of societies as members of those institutions. Even if these are only few, the institution should be started. But without a firm foundation of member societies, however small in number, a secondary institution should not be started. It must be built up from the bottom, and the demand will arise almost automatically as soon as the primary societies are sufficiently advanced. At the start, the committee will look to the Registrar for guidance, and indeed the nursing of the new society will take up a good deal of his time, but, comparatively soon,

when the committee begin to find their feet and after the first few decisions have been taken, it will be found that they are quite capable of ordinary administration. This does not apply to technical questions, such as the marketing of coffee, which is best left to experts. And in such cases the secondary institution will no doubt employ an expert and be guided largely by his advice. Government may be asked to help at the start by selecting the expert and by guaranteeing his pay over a three-year period. This is a legitimate call on government assistance, and one which most governments would be prepared to answer.

Mention was made earlier in this chapter of central banks, the membership of which is composed of societies and of individuals as shareholders. Bylaws of this kind of institution are obtainable from Registrars in India, but the circumstances in most Colonial territories do not appear to demand participation by individuals.

PART TWO

COMMENTARY ON THE MODEL CO-OPERATIVE SOCIETIES ORDINANCE AND RULES

In the following pages the Model Co-operative Societies' Ordinance and Rules are quoted in full. The authors wish to acknowledge the Crown Copyright in these texts and to record their thanks to the Comptroller of His Majesty's Stationery Office for his permission to reproduce them.

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A. Commentary on the Model Ordinance

Part I—Preliminary

1. *Short title.*—This Ordinance may be cited as the Co-operative Societies Ordinance, and shall come into operation on such date as the Governor may by notice in the *Gazette* appoint.

The preamble or foreword to the Indian Co-operative Societies Act, 1912, reads: "Whereas it is expedient further to facilitate the formation of co-operative societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means. . . ." Calvert suggests that it would better read . . . promotion of thrift, mutual help and self-help among agriculturists, artisans and other persons with needs in common. . . .

Thrift comes first, and rightly so, for without thrift it is not possible for a man to help himself or his neighbours. For this reason many societies insist on regular savings, however small, provided they are regular, in order that through self-discipline people may help themselves and thereby help each other.

Co-operation means the organisation of individuals into groups ("United we stand, divided we fall"), for without such organisation the individual is unable to stand up to all the difficulties of his daily life. He is bound to fall, and history shows how he has fallen to exploitation of every kind. It will be asserted by many people that the inhabitants of such-and-such a territory will never co-operate; they are too suspicious of one another; their interests are not mutual. The co-operative organiser is always told this when he starts work, but he should not let himself be depressed by such assertions. Sometimes they are made by persons whose interests will be affected by co-operative societies, but more often they are made through ignorance. The fact is that if the ordinary man is convinced that by co-operation he can improve his condition, he will co-operate. He may do foolish things, he may not comply with advice, he may be most exasperating to the staff of the co-operative department, but he can be guided and led,

not directed, once he is convinced that the department is really trying on his behalf. And it is the pleasant duty of the staff to convince and guide him. It is a duty which is different from those carried out by officers in most government departments in that it is not a question of enforcement of orders but of advice and help. It means the closest possible touch with the people among whom the work is being carried out, work at all times, especially in the evenings, and a patience which by most officers has to be learnt with experience. But it is wholly satisfying work, and it is often possible to see the fruits of one's own labours, to see a community gradually rising from a state of depression to self-reliance and economic independence. And the personal friendships which can be created are of great value to both the staff and the members of co-operative societies. There will often be times of deep depression, as when a committee which seemed to be working well goes right off the rails, or a seemingly trustworthy secretary disappears with the society's funds, but these troubles pass and there is always another society to visit which is probably doing very well, even though at the last visit it looked as if it was likely to fail.

2. *Definitions.*—In this Ordinance unless the context otherwise requires:—

"Bonus" means a share of the profits of a registered society divided among its members in proportion to the volume of business done with the society by them from which the profits of the society were derived.

"Bylaws" means the registered bylaws made by a society in the exercise of any power conferred by this Ordinance, and includes a registered amendment of the bylaws.

"Committee" means the governing body of a registered society to whom the management of its affairs is entrusted.

"Dividend" means a share of the profits of a registered society divided among its members in proportion to the share capital held by them.

"Member" includes a person or registered society joining in the application for the registration of a society, and a person or registered society admitted to membership after registration in accordance with the bylaws.

"Officer" includes a chairman, secretary, treasurer, member of committee, or other person empowered under the regulations or bylaws to give directions in regard to the business of a registered society.

"Registered society" means a co-operative society registered under this Ordinance.

"Registrar" means the Registrar of Co-operative Societies appointed under Section 3 of this Ordinance and includes any person when exercising such powers of the Registrar as may have been conferred upon him under that section.

"Rules" means rules made under this Ordinance.

The word "*bonus*" is used to cover the share to each member of the profits which the society makes after deduction of all expenses. It is payable in proportion to the volume of business done by each member. If the society carried out a particular enterprise in which a certain number of members only take part, the profits, if any, from that enterprise, are not divided out among the members as a whole but among those taking part in that enterprise. The word "bonus" is used in the sense of the co-operative "divvy," given to co-operators in England.

"*Bylaws.*" See Rule 69, in which it is laid down what matters shall be provided for in the bylaws. Unless the society has taken to itself power under its bylaws to do a certain business, it is illegal to do it. For example, a society formed with the object of marketing members' produce is not allowed, without having passed the necessary bylaw and having obtained the Registrar's approval of the bylaw, to start accepting deposits. It is important that not only the members of the committee but also the members of the society generally should know what the bylaws contain.

"*Committee.*" See Rules 31–38. The committee, which is elected by the members in general meeting (see Rule 31), carries on the administration of the society's day-to-day business. It is responsible to the members in general meeting and it is prescribed in Rule 34 that it shall meet at least once a month. Its duties are set out in Rule 33 (1), and it is essential that the procedure described in Rules 35 and 36 should be followed as closely as possible, for unless proper records are kept, the staff of the department are unable to find out what has been going on and to judge to what extent a society is working properly.

"*Dividend.*" This is not to be confused with "bonus" above. It is used in its ordinary sense of a return on share capital invested in the society. Under Rule 19 (1) the dividend is limited, and a limit of 5 per cent. per annum is suggested or such limit as may be suitable according to the circumstances prevailing in the territory. In order to avoid "dividend

hunting" on the part of some members, who may hold a larger number of shares than others, a limit has to be set.

"*Member.*" Original members are those who sign the form of application for registration. Other members are elected afterwards just as to a club, and provision must be made in the bylaws to cover the election and admission of members (see Rule 12). Calvert says: " . . . In co-operative credit societies careful selection is a vital principle, as it is the possible borrowers who are being selected. In stores societies, dealing for cash only, it is less important. The importance of selection varies to a large extent with the liability of the members and with the objects of the society. . . ."

It is obvious that it is undesirable to elect a local grocer as a member of a stores society, and similarly a man known to be idle by nature is not an acceptable member of a credit society.

"*Officer.*" See Rules 31, 32, 56 and 62. For "Employees" as distinct from "Officers" see Rule 41.

NOTE.—The word "regulation" in this definition should read "rule."

"*Registered Society.*" A society is not entitled to the protection of the Ordinance until it is registered, and it will be seen that after Part II Registration, the Ordinance refers always to "registered societies."

"*Registrar.*" Calvert says: " . . . if the Registrar were merely a registering officer, as in England, he would have little to do beyond seeing that the bylaws were in accordance with the law. In fact, he . . . has been made the foundation of the movement, so that to him falls the duty of studying all possible objects and of deciding which to encourage and which to postpone to a more favourable occasion. The main duty of the Registrar and his staff is to study the economic interests of the class from which members are drawn and to devise measures, on co-operative lines, whereby these interests can be promoted. . . ."

In the Circular dispatch of the 20th March, 1946, from the Secretary of State for the Colonies to Colonial Governments, he asks them where Registrars do not already exist, to consider the appointment of a Registrar assisted by the necessary staff. "The task of these officers will not be easy. Apart from general administrative ability, they must have, on the

one hand, that imagination and enthusiasm for the work and an appreciation of its significance and value without which organisation becomes but a dead thing and, on the other, the capacity to adapt their methods to fit the diverse needs of the societies and help them to provide services which are necessary to the improvement of the general life of the community. . . ."

"*Rules.*" See separate comments under Rules.

PART II—REGISTRATION

3. *Appointment of Registrar and Assistant Registrars.*—The Governor may appoint a person to be Registrar of Co-operative Societies for the Colony and may appoint persons to assist such Registrar, and may, by general or special order published in the *Gazette*, confer on any such persons all or any of the powers of a Registrar under this Ordinance.

"The Registrar is the foundation of the movement" (Calvert). His duties and powers are laid down in the Ordinance. They are:—

(1) Registration of societies and approval of bylaws (Section 6).

(2) Power to approve membership in more than one society (Section 23).

(3) Power to allow societies to make loans to other societies (Section 30).

(4) Power to allow societies to lend money on the security of movable property (Section 30 (2)).

(5) Power to regulate investment of funds (Section 33).

(6) Power to approve contributions by societies for charitable purposes (Section 34 (2)).

(7) Duty to audit and powers of inspection and inquiry (Sections 35–37).

(8) Powers to cancel registration and to liquidate (Sections 38–43).

(9) Power to surcharge officers of a society (Section 47).

(10) Duty to deal with disputes referred to him for decision (Section 49 (1)) and power to decide the dispute himself or to refer it to arbitration (Section 49 (2)).

(11) Power to state a case on questions of law (Section 50 (1)).

Mr. W. K. H. Campbell, in his memorandum on Co-operation

in the Colonies (C.M. No. 6, July, 1944) writes: " . . . Apart from the specific duties allotted to him under the Ordinance he must set the tone of the whole of his department, which needs to be somewhat different from that of an ordinary department of government. . . . His relations with the public are far more personal and human than those which fall to the lot of the ordinary government official, and he has more chance of personally seeing results in the form of a definite improvement in the economic status and morale of groups who have followed his advice. . . . The Registrar must be himself an enthusiast and capable of inspiring others and of winning the confidence of the individual co-operators with whom he comes into contact. . . ."

In the Report on Co-operation in the Colonies to the Fabian Colonial Bureau, the following passage occurs: "On the shoulders of the co-operative Registrar lies the responsibility for educating Colonial peoples to underwrite their own progress through free co-operative association, to encourage them in the early stages, to discover and train natural co-operative leaders."

What applies to the Registrar applies also to his staff, and the standards to which it is their duty to aim are exceptionally high ones. The success or failure of a Registrar depends to a great extent upon his staff. They are the people who come into contact with the general public and the members of societies, and attention is invited to the note on technique of approach to members and to the public on pp. 10-16.

4. *Societies which may be registered.*—Subject to the provisions hereinafter contained, a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society established with the object of facilitating the operations of such a society, may be registered under this Ordinance with or without limited liability as the Registrar may decide:

Provided that the liability of a society which includes at least one registered society among its members shall be limited.

The "objects" of a society are contained in the bylaws (see Rule 69 and comment on the definition of bylaws under Section 2).

"Economic interests of its members" (see comment under Section 1).

This phrase is widely interpreted when the registration of a society and of its bylaws is under consideration. There are many types of societies all over the world, varying from the

village co-operative credit society with unlimited liability to co-operative wholesale societies with turnovers of more than a hundred million pounds, and societies formed with the sole object of setting a limit to expenditure on marriage or funeral ceremonies. There are societies for the purchase of a stud ram to be used for the flocks belonging to members, and those formed for the purpose of ensuring that an annual retaining fee is paid to a doctor who agrees to reside in a certain area and look after the health of the members for a fixed contribution. There is little that cannot be done by a co-operative society, although a claim to register an organisation for the promotion of dances at certain intervals which, although co-operative in spirit, could not properly be described as in the economic interests of the members, had in one country to be rejected.

There are occasionally to be found some old village practices which have a co-operative basis and which, owing to lack of proper accounts and organisation, are decaying. Careful study should be made, in case fresh life could be put into the old practices, and they could be renewed as a co-operative society, the new being grafted on to the old. The wisdom of the ancients is not to be despised.

The economic interests are those of its members, and any dealings with non-members are subject to such prohibitions and restrictions as may be prescribed by the rules (Section 32 and Rule 20). In stores societies there is no objection to trading with non-members provided it is on a cash basis and that it does not form the major part of the transactions of the society. "A society formed with the objects of facilitating the operations of such a society" (see chapter on Secondary Co-operative Institutions) "may be registered." Discretion whether to register or not is left to the Registrar (see Section 7). It may be "with or without limited liability." See chapter on Limited and Unlimited Liability and on Secondary Co-operative Institutions.

5. *Conditions of registration.*—(1) No society, other than a society of which a member is a registered society, shall be registered under this Ordinance, which does not consist of at least 10 persons, each of whom is qualified under Section 21 for membership under this Ordinance.

(2) The word "co-operative" or its vernacular equivalent shall form part of the name of every society registered under this Ordinance.

(3) The word "limited" or its vernacular equivalent shall be the last

word in the name of every society with limited liability registered under this Ordinance.

(4) When for the purposes of this section any question arises as to age, residence, or occupation of land constituting the qualification of any person, that question shall be decided by the Registrar, whose decision shall be final.

"*Ten persons.*" There must be a minimum number of persons to start a society, and it is considered that ten shall be the minimum. In some countries the minimum is larger or smaller, and a different minimum is occasionally fixed for certain types of societies, e.g. in stores a larger minimum is insisted upon as the requirements for consumption of ten families will not allow sufficient margin between purchase and sale prices to cover running costs of the store.

Section 21 prescribes that each member should be 18 years of age and be resident in or in occupation of land within the society's area of operations. Calvert says: " . . . the field of the society should be sufficiently restricted to allow members to be mutually acquainted and to be in a position to exercise an effective mutual control. . . ."

The word "*Co-operative.*" It is important that the public should know that they are dealing with a co-operative society registered under the Ordinance, and under Section 56 the use of the word "co-operative" in its name by any other business is prohibited. This ensures that only societies registered under the Ordinance can properly use the word "co-operative" in their name.

The word "*Limited.*" Where companies are registered under any company law which may be in force, it is illegal for them not to advertise the fact when they are registered with limited liability. Every co-operative society must do likewise (see chapter on Limited and Unlimited Liability).

Subsection (4) gives the final decision on qualification for membership to the Registrar in cases where any doubt arises.

6. *Application for registration.*—(1) For the purposes of registration an application shall be made to the Registrar.

(2) The application shall be signed:—

(*a*) in the case of a society of which no member is a registered society, by at least 10 persons qualified in accordance with the requirements of Section 5 (1); and

(*b*) in the case of a society of which a member is a registered society, by a duly authorised person on behalf of every such registered society, and, where all the members of the society are not

registered societies, by 10 other members, or, when there are less than 10 other members, by all of them.

(3) The application shall be accompanied by copies of the proposed bylaws of the society, and the persons by whom or on whose behalf such application is made shall furnish such information in regard to the society as the Registrar may require.

"*Application shall be made to the Registrar.*" In some legislation the form of application for registration is set out in the schedule to the rules. The form should contain a request for registration with the name of the proposed society, its place of business, the area of operations and its objects. The name and surname of each applicant, his age, occupation and place of residence should also be given.

Copies of the proposed bylaws should be sent in duplicate, one copy being retained by the Registrar and the other copy being returned to the society signed by the Registrar after registration.

Applications for the registration of a society of which a member is a registered society, should be in similar form, but the details of members should be given in the form of information about the society's members, e.g. instead of A. B., age 19, occupation farmer, Village of X, the application would be for the Co-operative Credit Society of Y Village with its office at Y and a membership of 75 members.

The form of application should be signed either by the committee of the member society or by the secretary, in which event a copy of an extract from the minute book of the society authorising the secretary to sign the application should be attached to it.

Copies of the proposed bylaws in duplicate should accompany the application.

Unless the society forwards proposed bylaws with the application, the Registrar is unable to consider it, and in effect the Ordinance gives power to the Registrar to make the society accept such bylaws as he considers suitable and desirable. Rule 69 lays down what must be included in the bylaws. It is the general practice for the Registrar to prepare sets of model bylaws, which are circulated among the staff of the department, and when a society is in process of formation, one of the staff meets prospective members and explains the model bylaws to them. A few additions or minor alterations may be required, but in general the model bylaws will suffice

to start a society on its way. Any attempt by "bush lawyers" to introduce major variations in the model bylaws before a society starts operations should be firmly resisted, for these models are the result of experience in many parts of the world and they should not lightly be disregarded (see comment under Rule 69).

"*Ten persons.*" These are known as "the original members" and they are the only members of the society who are not elected. It is they who form the first general meeting and proceed to elect the committee, etc.

7. *Registration.*—(1) If the Registrar is satisfied that a society has complied with the provisions of this Ordinance and the rules, and that its proposed bylaws are not contrary to this Ordinance or to the rules, he may, if he thinks fit, register the society and its bylaws. An appeal shall lie to the Governor in Council against the refusal of the Registrar to register any society within one month from the date of such refusal.

(2) On registration the society shall pay such fee as may be required by the rules.

"*He may.*" Discretion is given to the Registrar to register or not to register. But he will not refuse to register provided that the society has complied with the Ordinance and Rules, and its bylaws are in order unless there are very strong and sound reasons for his refusal. It happens sometimes that a wave of enthusiasm for the formation of societies sweeps through a territory or an area swamping the Registrar and his staff. They are physically unable to deal with all the applications. In that event, a waiting list has to be started, and the applicants informed accordingly. Under conditions of shortage of supplies of essential goods, where government has had to take over distribution, it has happened that a demand for the formation of stores societies has sprung up rapidly. Possibly this demand was prompted by the feeling that co-operative stores would be especially favoured by government in its distribution schemes. The Registrar may then have to refuse registration in some cases. In view of the appeal to the Governor in Council, he would have to justify his refusal.

A certificate of registration signed by the Registrar, stating that the society under the name of .... and its bylaws has been duly registered in the Register of Societies on the .... day of ....19.., should be sent to the society

on registration, and it should be displayed in a prominent position in the office of the society, as proof of registration. In case of refusal, an official reply should be sent so that the applicants may appeal to the Governor in Council if they so wish.

8. *Societies to be bodies corporate.*—The registration of a society shall render it a body corporate by the name under which it is registered, with perpetual succession and with power to hold property, to enter into contracts, to institute and defend suits and other legal proceedings, and to do all things necessary for the purpose of its constitution.

"*Body Corporate.*" The fact of registration makes the members, who signed the application to be joined in a society, a body corporate, that is, a group of persons which the law recognises as having a legal existence. Calvert says: "The corporate body ceases to exist when registration is cancelled. The effect of incorporation is to protect individual members from suits by creditors; no legal proceedings can lie against a member of a society individually in respect of an obligation of the society; the society has to be sued, and in case of default it is the society and not the individual member which goes into liquidation. . . ."

"*Power to do all things necessary for the purpose of its constitution.*" This power is subject to the Ordinance, the Rules and the Bylaws. If the members wish the society to do other things which are not provided for in the bylaws, they have to pass at a general meeting an amendment to the bylaws. Before this amendment can operate, it has to be approved by the Registrar (see Section 10).

9. *Evidence of Registration.*—A certificate of registration signed by the Registrar shall be conclusive evidence that the society therein mentioned is duly registered, unless it is proved that the registration of the society has been cancelled.

Calvert says: . . . "The certificate is a conclusive answer to any objection relating to registration and at once enables a society to enter into contracts. It is prima facie evidence that all the provisions of the Act have been duly complied with; it is conclusive evidence of a society's corporate existence. . . ."

For the need for each society to display its certificate of registration in a prominent place in the office, see comment under Section 7.

It will be seen that from now onwards in the Model Ordinance the phrase "registered society" is used.

PART III—DUTIES AND PRIVILEGES OF SOCIETIES

10. *Amendment of the bylaws of a registered society.*—(1) Any registered society may, subject to this Ordinance and the rules, amend its bylaws, including the bylaw which declares the name of the society.

(2) No amendment of the bylaws of a registered society shall be valid until that amendment has been registered under this Ordinance, for which purpose copies of the amendment shall be forwarded to the Registrar.

(3) If the Registrar is satisfied that any amendment of the bylaws is not contrary to this Ordinance or to the rules, he may, if he thinks fit, register the amendment. An appeal shall lie to the Governor in Council against the refusal of the Registrar to register any amendment of any bylaw.

(4) An amendment which changes the name of a society shall not affect any right or obligation of the society or of any of its members or past members, and any legal proceedings pending may be continued by or against the society under its new name.

(5) When the Registrar registers an amendment of the bylaws of a registered society, he shall issue to the society a copy of the amendment certified by him, which shall be conclusive evidence of the fact that the amendment has been duly registered.

(6) In this section, "amendment" includes the making of a new bylaw and the variation or rescission of a bylaw.

When a society is first registered by the Registrar the bylaws of the society are also registered (see comment under Section 6). A copy of the bylaws as registered is sent to the society, together with the certificate of registration, and the society will start operations in accordance with those bylaws. This section gives power to the registered society to change its bylaws. The changes can only be approved at a general meeting (see comment under Rule 24) or a special general meeting (see comment under Rule 25). When approved at the general meeting, a copy is sent to the Registrar in duplicate, for his approval in the same way in which the original bylaws were sent. And until the approval of the Registrar has been received, the changes in the bylaws are not operative.

The provision in subsection (4) about the change of name, is meant to cover cases where too clever people think that they can avoid payment by the society of its debts by changing its name. The subsection says that they cannot do so. Calvert says: " . . . Great care is required in seeing that this section is properly complied with. No bylaws can be acted upon unless they have been registered and any action in accordance with

unregistered amendments might be held to be illegal. . . ." It is the duty of the staff to see that any action taken by a society is in accordance with its bylaws and to help, where necessary, in the preparation of amendments to the bylaws.

11. *Address of society.*—Every registered society shall have an address, registered in accordance with the rules, to which all notices and communications may be sent, and shall send to the Registrar notice of every change of that address.

The original address is sent to the Registrar with the application for registration (see comment under Section 6) and it follows that changes of address should also be sent to the Registrar.

Calvert says: "The object of the address is that all communications may be addressed to it; it need not be the place of meeting, and the place of meeting may be changed without notice being sent to the Registrar. . . ."

Where a society operates over a large area where several courts have jurisdiction, it is important that the address of the society should be known.

12. *Copy of Ordinance, rules, bylaws, etc., to be open to inspection.*—Every registered society shall keep a copy of this Ordinance and of the Rules and of its bylaws and a list of its members open to inspection, free of charge, at all reasonable times at the registered address of the society.

It is the duty of the society to keep a copy of the Ordinance, Rules, bylaws and a list of members available for inspection not only by the members but also by the general public. The latter, if of the kind who may be interested in joining the society, should know what the bylaws are and also who their prospective fellow members are. If they are of the kind who lend money, it is only reasonable to allow them to examine the list of members to see if any of their clients are members of the society. If they are of the kind who are likely to deposit money with the society, they too should know the bylaws and the names of the members who will be making use of their money.

Calvert says: " . . . It must be remembered that co-operative societies are societies for the public good, and hence the public have a right to know what are their rules and objects so that the advisability of joining may be considered. . . ."

Members may be allowed by the committee to see certain

records other than those laid down in this section, although the accounts of individual members should not be shown to anyone except to members of the committee and, of course, to the individual himself.

13. *Disposal of produce to or through a registered society.*—(1) A registered society which has as one of its objects the disposal of any article produced or obtained by the work or industry of its members, whether the produce of agriculture, animal husbandry, forestry, fisheries, handicrafts or otherwise, may provide in its bylaws or may otherwise contract with its members:—

(*a*) that every such member who produces any such article shall dispose of the whole or any specified amount, proportion or description thereof to or through the society; and

(*b*) that any member who is proved or adjudged, in such manner as may be prescribed by the rules to be guilty of a breach of the bylaws or contract shall pay to the society as liquidated damages a sum ascertained or assessed in such manner as may be prescribed by the aforesaid rules.

(2) No contract entered into under the provisions of this section shall be contested in any court on the ground only that it constitutes a contract in restraint of trade.

The Indian Co-operative Societies Act, 1912, the preamble to which is quoted in the comment under Section 1, and from which the Model Ordinance largely derives, makes no mention of this privilege of societies to contract with the members to dispose of their produce, and indeed, it is a later development designed to safeguard societies in any marketing arrangements which, in the interests of the members, they may decide to make. Campbell, in his *Co-operation for Economically Undeveloped Countries*, writes: " . . . It is frequently necessary for a society which is about to attempt the marketing of produce, to incur considerable capital expenditure. It may have to erect or lease buildings, stores and warehouses, purchase machinery, carts, boats, lorries, etc. It does this in the expectation that members will bring their produce to it for sale and in reliance of their promises to do so. . . . A very severe loss may be incurred, which will fall as much on the innocent as on those who have caused it. It is therefore reasonable that such a society should obtain from every member a legally enforceable agreement. . . . These agreements should be valid for a period long enough to pay the cost of the necessary capital expenditure involved. . . . But to prevent any possibility of

future doubt, it is desirable that a provision should be included in any co-operative law, expressly validating such agreements. . . ."

It will be seen from subsection (2) that these contracts cannot be contested as being invalid as in restraint of trade.

There are further reasons for the need for these contracts. Members are apt to change their minds. They agree at the start to market all their surplus rice or other product through the society and, later, owing to the promise of a higher price from someone else, or to pressure from a storekeeper or other person to whom they owe money, they fail to bring their produce to the society. On its part the society may have entered into a binding contract to deliver so many tons of produce to a merchant, and is liable to damages on account of non-delivery. It is only reasonable that defaulting members, and not the society as a whole, should pay those damages. Campbell, in his report quoted above, recommends that the function of the society should be to sell on commission, the actual ownership remaining throughout with the grower. There are legal difficulties involved in this conception, when the produce of, say, 100 members, amounting to tens of tons, is stored in one or more stores, but as a general rule the attitude of the society to the members should be: "We are selling this produce for you and we give you a cash advance (which should not be more than three-fifths of the current market price) when you deliver the produce. For the rest, when we have sold the produce, we will make up our accounts and pay over to you any balance due."

Campbell draws attention to the need for insurance wherever possible, and the Registrar should always be in a position to advise societies on the matter of insurance. And now for a word of warning with which the writers agree wholeheartedly. It comes from the Fabian Report on "Co-operation in the Colonies," already quoted: ". . . Experienced co-operators have observed that co-operative marketing stands its best chance of success if superimposed on other forms of co-operation which have taught the members the value of mutual trust and combined action, without imposing quite so severe a strain on their loyalty. . . ." In other words, marketing should not be the first essay in co-operative organisation, but a later development.

14. *Creation of charges in favour of registered societies.*—(1) Subject to any prior claim of the Crown on the property of the debtor and to the lien or claim of a landlord in respect of rent or any money recoverable as rent and in the case of immovable property to any prior registered charge thereon:—

(*a*) any debt or outstanding demand payable to a registered society by any member or past member shall be a first charge on all crops or other agricultural produce, felled timber or other forest produce, marine produce, fish (fresh-water and salt-water), livestock, fodder, agricultural, industrial and fishing implements, plant, machinery, boats, tackle and nets, raw materials, stock-in-trade and generally all produce of labour and things used in connection with production raised, purchased or produced in whole or in part from any loan whether in money or in goods given him by the society: provided that nothing herein contained shall affect the claim of any *bona fide* purchaser or transferee without notice;

(*b*) any outstanding demands or dues payable to a registered housing society by any member or past member in respect of rent, shares, loans or purchase money or any other rights or amounts payable to such society shall be a first charge upon his interest in the immovable property of the society.

This section gives a most important privilege to societies and it is essential that it should be well understood by the staff, the committee and the members. If the society has given a loan to the member for fertiliser and the fertiliser has been used in connection with a crop of grain, the society has first claim to the money which the member receives from the sale of that grain. And even if the member owes money to anyone else on account of earlier transactions, that creditor is not entitled to get a court order to sell his debtor's property before the society is paid. This "first charge," or "prior claim" as it is sometimes called, is one of the reasons why loans made by societies to their members are usually well secured, but the committee has to ensure that the fact that the society has made a loan to a member for a certain purpose is known to the Court. For this reason, when a member is sued in a court for an old debt, and the creditor asks for judgment, a representative of the society should appear in court and tell the judge that the debtor is indebted to the society for his cultivation and other expenses. He should also ask the judge to recognise the first charge, in accordance with the relative section of the co-operative law.

It is possible that a member may not notify the society that

he is being sued by another creditor, and if judgment is given, the society's first charge will probably not be recognised by the officer of the Court or Sheriff's officer who executes the judgment. But the committee may be able to persuade him to delay execution until the society can apply to the Court and state its case. The committee must be vigilant to see that they do not lose their privilege of this "first charge." The remedy is, of course, not to lend money to a member who may be sued by other creditors, but that is an ideal position which is not likely to be reached for some considerable time, and co-operative societies are meant to help people who have debts, although they cannot help the man who is in a hopeless state of over-indebtedness. Provided that the members themselves do not hide their financial position from the committee, and provided that the committee are awake to their privilege of this first charge and take the trouble to represent it to the courts, this security for a loan, combined with the sureties (see comment under Rule 44), should be quite sufficient.

This section does not give the society any summary power to sell a member's property. If the committee considers that a member is unlikely to be able to pay and they are able to show to the Registrar that a dispute exists between the member and the committee over non-payment, they should take action under Section 49 (see comment under Section 49 and Rule 72).

15. *Charge and set-off in respect of shares or interest of members.*—A registered society shall have a charge upon the shares or interests in the capital and on the deposits of a member or past member or deceased member and upon any dividend, bonus or profits payable to a member or past member or to the estate of a deceased member in respect of any debt due to the society from such member or past member or estate, and may set off any sum credited or payable to a member or past member or estate of a deceased member in or towards payment of any such debt.

This section gives the society a right to take, in payment of a member's debt to the society, the share capital which he has paid up, any deposit which he may have made in the society and any other sum due to him by the society. The society has this right not only against members but also against past members and the estates of deceased members.

The right should only be used when the debt is due but unpaid and it is clear to the committee that it is not possible to get the money by any other means.

Calvert says: " . . . It would be quite absurd for a member to be able to set off his share in the society against the society's claim against him for money owed. The shares are part of the capital of the society and are security for the creditors and not for the debtors" . . . (see also comment under Rule 55).

The word "interest" in this section and Sections 16 and 17 is used not in its usual sense of interest on capital but in the sense of the member's pecuniary stake in the society's funds.

16. *Shares or interest not liable to attachment or sale.*—Subject to the provisions of Section 15, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a court in respect of any debt or liability incurred by such member, and neither his assignee in insolvency nor a receiver duly appointed shall be entitled to, or have any claim on, such share or interest.

The purpose of this section is to protect the share capital in a society, subscribed by the members, and the whole stake of the members in the funds of the society from sale under an order by a court or in case of bankruptcy. It should be noted that deposits made by members are not protected as they cannot properly be termed an interest in the society's capital.

17. *Transfer of interest on death of member.*—(1) On the death of a member, a registered society may transfer the share or interest of the deceased member to the person nominated in accordance with the rules made in this behalf, or, if there is no person so nominated, to such persons as may appear to the committee to be the heir or legal representative of the deceased member, or may pay to such nominee, heir or legal representative, as the case may be, a sum representing the value of such member's share or interest, as ascertained in accordance with the rules or bylaws:

Provided that:—

(*a*) in the case of a society with unlimited liability such nominee, heir or legal representative, as the case may be, may require payment by the society of the value of the share or interest of the deceased member ascertained as aforesaid;

(*b*) in the case of a society with limited liability, the society may transfer the share or interest of the deceased member to such nominee, heir or legal representative, as the case may be, being qualified in accordance with the rules and bylaws for membership of the society, or on his application within six months of the death of the deceased member to any person specified in the application who is so qualified.

(2) A registered society shall pay all other moneys due to the deceased member from the society to such nominee, heir or legal representative, as the case may be.

(3) All transfers and payments made by a registered society in accordance with the provisions of this section shall be valid and effectual against any demand made upon the society by any other person.

Provision is made in this section for the transfer of a deceased member's share to a nominee (see comment under Rule 18 about nominees) or to his heir or legal representative. The arrangements to be made are different in the case of a society with unlimited liability and that of a society with limited liability. In the first case the nominee or heir is paid the value of the share as determined by the rules (see Rule 18). If he wishes to join the society and is eligible, he may be elected as a member in the ordinary way.

In the second case the nominee or heir may ask to be accepted as a member, and if he is elected, the share is transferred in the books of the society in his name. But he cannot exercise the rights of membership before he is elected, even though he is entitled to the share.

Rule 18 (5) provides that the value of the share shall be the sum actually paid by the member holding it unless the bylaws of the society otherwise provide.

The nominee, if any, is entitled to payment, and if there is no nominee, the heir or legal representative may be paid. Ii both demand payment, the nominee comes first. Sub-clause (3) protects the society from litigation.

18. *Deposits by or on behalf of minors.*—(1) A registered society may receive deposits from or for the benefit of minors and it shall be lawful for a registered society to pay such minors the interest which may become due on such deposits. Any deposits made by a minor may, together with the interest accrued thereon, be paid to that minor; and any deposit made on behalf of a minor may, together with the interest accrued thereon, be paid to the guardian of that minor for the use of the minor.

(2) The receipt of any minor or guardian for money paid to him under this section shall be a sufficient discharge of the liability of the society in respect oi that money.

Deposits from minors are made either by the minor himself or by the parent or guardian on behalf of the minor, and the section makes the acceptance of such deposits legal. Sub-section (2) provides that the receipt of the minor or guardian is a legal one. If this section were not included in the Ordinance there might be legal difficulties in connection with deposits and especially with withdrawals. Sometimes parents start savings deposits either in the name of the child or in the

father's or mother's name on behalf of the child. In the eyes of the law a minor has certain disabilities, and the section makes the receipt signed by the child a legal receipt even though the child is a minor.

The bylaws of some societies provide that where savings deposits are started in the name of a minor, they may not be withdraw until the child is of full age. The idea behind that is a good one, as it prevents the parents making the child withdraw it until it can make up its own mind independently of the parents. But cases have been known to occur where the money was badly needed by the parents for sickness or other good reason, and they were unable to withdraw it. It is usually advisable that deposits on account of a minor should be in the name of the parent or guardian. As a method of reminding the parent or guardian there may be added "for So-and-so, a minor." And the secretary may urge the parent or guardian not to withdraw, although he cannot prevent him from doing so.

Under Section 21, no one can be a member unless he has attained the age of 18 years. The age at which minority ends varies in different countries, and it may happen that a minor is a member of a society. In that event, he has the same rights as other members.

19. *Register of Members.*—Any register or list of members kept by any registered society shall be prima facie evidence of any of the following particulars entered therein:—

(*a*) the date at which the name of any person was entered in such register or list as a member;

(*b*) the date at which any such persons ceased to be a member.

Rule 10 makes it compulsory for every society to keep a register of members and lays down what shall be entered in the register. This rule should be read together with Section 19. Calvert says: " . . . This register, from the legal aspect, is one of the most important documents a corporate body maintains. It discloses the list of persons liable. It is accordingly compulsory. . . . It must be kept up-to-date, to ensure the application of Sections 29 and 42 (1) (4) of the Model Ordinance; it must record the effect of transfers (Section 28 of the Model Ordinance) and of course must contain the dates of the deaths of members (as membership ceases on death) . . . ."

The register of members must be kept open to inspection

by the public (see Section 12). Secretaries are often careless about keeping the register up to date and it is the duty of the staff, when an inspection is being carried out, to examine the register and satisfy themselves that it is being kept up-to-date.

20. *Proof of entries in books of society.*—(1) A copy of any entry in a book of a registered society regularly kept in the course of business shall, if certified in such manner as may be prescribed by the rules, be received in any legal proceeding, civil or criminal, as prima facie evidence of the existence of such entry and shall be admitted as evidence of the matters, transactions and accounts therein recorded in every case where, and to the same extent as, the original entry itself is admissible.

(2) No officer of any such society shall, in any legal proceedings to which the society is not a party, be compelled to produce any of the society's books, the contents of which can be proved under subsection (1) or to appear as a witness to prove any matters, transactions or accounts therein recorded, unless the Court for special reasons so directs.

This section should be read in conjunction with Rule 71, which provides how an entry should be certified and that it should be signed by the secretary and one member of the committee. This is a further privilege given to societies, and it saves the society from bringing its books into court and from having its accounts disclosed in the court. In short, the section says that where an entry discloses that "A" owes the society £5, the certified copy is evidence that the entry exists.

Part IV—Rights and Liabilities of Members

21. *Qualification for membership.*—In order to be qualified for membership of a co-operative society a person, other than a registered society, must (*a*) have attained the age of 18 years; (*b*) be resident within or in occupation of land within the society's area of operations as described by the bylaws.

It has been seen under Section 5 that a society cannot be registered unless it consists of at least 10 persons, each of whom is qualified under Section 21 for membership under the Ordinance. This section sets out the qualification. For members there are only two, the first concerned with age and the second with residence or occupation of land. The reason for the age qualification is clear, and it is desirable that the members should all reside in the same area to be able to attend meetings easily and to get to know each other. But a man who occupies and farms land in a village where a society operates may live in a neighbouring town outside the society's

area of operations. He is not for that reason debarred from joining the society. In the case of a village credit society, it is desirable that such a man should farm the land himself and not leave it entirely to hired labour. The main consideration which a society should keep in mind in electing such a man as a member is whether he shares their interests. If he is a practical farmer, even though he may do little work with his own hands, he will probably be a useful member; if not, the society would be better advised not to elect him.

Difficulties sometimes arise over the registration of a society whose members live all over the territory, say, a credit or thrift society for school teachers. It is then best for the society's area of operations to be registered as the territory itself. The office of the society, i.e. its registered address, will probably be in the capital of the territory and general meetings will be arranged during the school holidays. A credit and thrift society for railway employees will also operate throughout the territory. In such societies it may be convenient to have voting by proxy, in which event an amendment will have to be made to Section 25 of the Model Ordinance.

22. *Members not to exercise rights till due payment made.*—No member of a registered society shall exercise the rights of a member unless or until he has made such payment to the society in respect of membership or acquired such interest in the society, as may be prescribed by the rules or bylaws.

The member, after election in the manner prescribed in the bylaws (see comment on Rule 12) and after payment of an entrance fee, if any, and the amount of share capital, if any, as may be prescribed in the bylaws, is entitled to the full rights of membership. They may be summarised as follows:—

(1) To attend general meetings and to vote at those meetings (Rule 21).

(2) To elect the committee (Rule 31).

(3) To ask for a special general meeting (Rule 25).

(4) In credit societies, to ask for a loan (Rule 42).

(5) To demand that the society accepts deposits from him (Rule 20).

(6) Exemption from attachment of his share or interest in the society (Section 16).

(7) To transfer his shares (Rule 54) although he still remains liable for two years (Section 29).

(8) To appoint nominees (Rule 18).

(9) To be given a share in the profits on distribution (Rule 19).

(10) To inspect the books of the society (Section 13 and comment under that section).

(11) To appeal against the Registrar's order of Cancellation of Registration of the society (Section 38 (2)).

Calvert adds: " . . . Finally, he has the right to withdraw if he disagrees with the decision of the majority. In unlimited liability societies this is a very important right indeed, as it enables a member to withdraw before a liability is incurred to which he objects (see Section 29 of the Model Ordinance). He is not entitled to a share in the reserve fund (see Rule 66) nor to sell his share to anyone not approved by the committee.

These rights are protected by the rule of one man one vote and by the prohibition of proxy voting, so that a member who attends a general meeting can be certain of a hearing from those who are going to vote on the point under discussion. . . ."

23. *Restriction of membership in society.*—Except with the sanction of the Registrar, no person shall be a member of more than one registered society whose primary object is to grant loans to its members.

It is undesirable that a man should be able to get loans from two societies, as the right hand will not know what the left hand is doing. Many societies whose primary object is to grant loans to their members are registered with unlimited liability and a man cannot give away his unlimited liability to two different societies. There is no objection to a man being a member of two or more societies with limited liability and of one society with unlimited liability. It may happen that a member of a territory-wide credit or thrift society, e.g. one of teachers or railwaymen, farms land in a village where there is a credit and thrift society. In both societies the primary object is to grant loans, though thrift is an equally important object. The village society may arrange for the supply of fertilisers to its members and the teacher or railwayman will naturally wish to get fertilisers through the village

society. In that event he should ask the Registrar for his sanction to join the village society. This will usually be given.

24. *Votes of members.*—No member of any registered society shall have more than one vote in the conduct of the affairs of the society; provided that in the case of an equality of votes the Chairman shall have a casting vote; provided further that in the case of societies of which a registered society is a member that society may have such voting powers as are provided in the rules.

The rule is "one man, one vote." All members are equal and have the same rights. Where at any meeting the vote is equal, i.e. the same number of votes for and against a proposal, the chairman, who has already voted as an ordinary member for or against the proposal, has a second vote which he must use either for or against the proposal. It is his duty to give his casting vote as he thinks right, and he cannot escape from that duty (see Rule 29 (2 and 3)).

The voting powers in societies of which a registered society is a member should be provided for in the rules. It will be seen that the Model Rules do not specifically provide for this for the good reason that there are many different types of these societies and it is not possible to draft a model rule to cover all the types. In each territory local rules will have to be prepared to cover voting powers in these societies (see chapter on Secondary Institutions).

25. *Representation by proxy.*—A registered society which is a member of any other registered society may appoint any one of its members as its proxy for the purpose of voting in the conduct of the affairs of such other registered society.

This section enables a society which is a member of another society (a secondary institution) to appoint a representative to attend and vote at general meetings of the secondary institution. The representative must be a member and the proxy should be in writing and signed by the chairman and at least two other members of the committee and by the secretary. It is usual to record in the committee minute book the fact that So-and-so was appointed to attend the general meeting of the secondary institution on such and such a date. It is also usual for representatives to be asked to attend at the general meeting an hour or so earlier than the time fixed, so that the secretary may check the proxy and see that it is in order.

26. *Contracts with society of members who are minors.*—The minority or non-age of any person duly admitted as a member of any registered society shall not debar that person from executing any instrument or giving any acquittance necessary to be executed or given under this Ordinance or the rules made thereunder, and shall not be a ground for invalidating or avoiding any contract entered into by any such person with the society; and any such contract entered into by any such person with the society, whether as principal or as surety, shall be enforceable at law or against such person notwithstanding his minority or non-age.

(See comment on Section 18 in connection with deposits by or on behalf of a minor.)

Under Section 21, in order to be qualified for membership, a person must have attained the age of 18 years. In some territories the age when a person ceases to be a minor in the eyes of the law may be 21 years of age. This section gives the right to the society to treat the member in the same way as other members who are of full age, and it can forget that legally he is still a minor. Similarly, the member cannot evade his obligations to the society on the plea that he is still a minor and is therefore not legally liable.

27. *No individual to hold more than one-fifth of share capital of any society.*—No member, other than a registered society, shall hold more than one-fifth of the share capital of any co-operative society.

The purpose of this section is to ensure that no one member, by having a predominating influence in the society, shall indirectly try to control the society, although in this connection see Section 24.

Calvert says: " . . . In the Industrial and Provident Societies Acts and in most Acts of other countries relating to co-operative societies, a similar restriction on the amount of interest a member may hold is to be found. . . . The principle is characteristic of co-operative societies and is designed to exclude the mere seeker after profits. . . ."

There is no objection to one society holding more than one-fifth share of the share capital in a secondary institution (see note on Secondary Institutions), as any influence which that society may exert will be in what it considers to be the interests of all member societies of the secondary institution and not of the one society.

28. *Restrictions on transfer of share or interest.*—(1) The transfer or charge of the share or interest of a member or past member or

deceased member in the capital of a registered society shall be subject to such conditions as to maximum holding as may be prescribed by this Ordinance or by the rules.

(2) In the case of a society registered with unlimited liability, a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof, unless:—

(*a*) he has held such share or interest for not less than one year; and

(*b*) the transfer or charge is made to the society, or to a member of the society, or to a person whose application for membership has been accepted by the committee.

This section should be read in conjunction with Rule 54, which lays down what is to be done when a share is transferred. In no case can the transfer be approved by the committee if the maximum holding of one-fifth (see Section 27) is thereby exceeded.

Calvert says: " . . . In a co-operative society the selection of members is all important and, where the possession of a share is a condition of membership, the transfer of such a share must be as carefully guarded as the admission of members. As the financial security depends on the liability of the members, it is necessary to restrain rapid changes among those liable.

A depositor would never know whether his deposit was safe if members changed frequently. . . ."

Subsection (2) makes the conditions of transfer of shares in societies with unlimited liability more stringent. A member cannot transfer his share unless he has held it for one year and except to a person who is already a member of the society.

Calvert says: " . . . All *limited* liability societies would be well advised to create a 'share transfer fund' by voting a portion of the annual profits to this purpose. There is no objection to a society holding a number of its own shares in its undivided profits (other than the legal reserve). By this means transferable shares are made withdrawable so far as the holder is concerned, as the latter can sell to the transfer fund instead of having to wait for an individual purchase. . . ."

Cases have been known where persons joining a society at the start have, in over-enthusiasm, subscribed to many more shares than was necessary. To such persons the share transfer fund could be of considerable benefit.

29. *Liability of past member and estate of deceased member for debts of society.*—(1) The liability of a past member for the debts of a registered society as they existed on the date on which he ceased to be a member shall not continue for a period of more than two years reckoned from that date.

(2) The estate of a deceased member shall not be liable for the debts of the society as they existed on the date of his decease for a period of more than two years reckoned from the date of his decease.

Both past members and the estates of deceased members remain liable for the debts of the society as they existed on the date of resignation, or death, as the case may be. It is reasonable that a period should be provided for in the Ordinance, as otherwise members would be able to resign when they thought that the society was in a bad way, and thus avoid their obligations.

The phrase, "as they existed on the date," means that a past member or the estate of a deceased member cannot be held responsible for debts of the society incurred after resignation or death, and this may cause some difficulty to liquidators of societies. Enforcement of this liability will only take place on dissolution, i.e. if the order of cancellation of registration of the society is dated on a date prior to the expiration of the two-year period. Two points should be borne in mind when considering this section: the first is that there is no limitation in the case of a debt owed *to* the society by a member who has resigned or died, and the second that there is equally no limitation where such member has stood as surety for another member.

Calvert considers that a past-member is bound by any alterations of the bylaws carried out subsequently to his withdrawal which may enhance his liability.

Part V—Property and Funds of Registered Societies

30. *Loans made by a registered society.*—(1) A registered society shall not, except as provided in Section 33, make any loan to any person other than a member:

Provided that, with the consent of the Registrar, a registered society may make loans to another registered society.

(2) Except with the permission of the Registrar, a registered society shall not lend money on the security of any movable property other than produce or goods in which the society is authorised to deal.

(3) The Governor may, by general or special order, prohibit or restrict the lending of money on mortgage of any description of immovable property by any registered society.

The prohibition of loans to persons other than members is definite, but it is surprising how often societies at the start fail to comply with the prohibition. An influential person in the village who is either not eligible or is unwilling to join the society, brings pressure to bear on the committee and they give him a loan. The staff must impress on committees that loans are for members only and also that if they lend money to non-members, it may be recoverable from themselves on account of their illegal action. There is, of course, no objection where a society has surplus funds not required by its own members, to a loan being made to another society, but the consent of the Registrar is required and must be first obtained. The reason for this is that the Registrar knows all about the financial position of the society to which it is proposed to lend the money, and if he is in any doubt about its soundness and of its real need for further funds he will refuse his consent. It will be noted that the word "loan" is used in this section, while Section 33 deals with the investment or deposit of funds. Rules 42–50, applicable to credit societies, deal with loans, and it is in that sense of a sum of money lent on certain conditions for a certain purpose that the word "loan" is used in this section (see comment under Section 33).

Subsection (2) prohibits lending on the security of movable property except with the permission of the Registrar. At the start it is undesirable to allow societies to consider movable property as security. Lending should be in a small way, and a member's character, backed by two sureties, should be sufficient security. Later on it may be found that a pledge of movable property is necessary, particularly where a society has borrowed from a central bank, which in its turn may be financed by a commercial bank. In that event the Registrar will no doubt give his permission.

In some territories it has been found necessary to insert special provisions in the co-operative law dealing with "chattel mortgages" or "charges" in a special form applicable only to dealings between co-operative societies and their members. A good example of this type of legislation is to be found in the Cyprus Co-operative Societies Law, 1939. The question whether a society's operations should include pawn-broking has been a matter of controversy in India, says Calvert, especially in connection with jewellery. The conclusion was

reached that "where a society is located in a large village or town with silversmiths available, with a ready market at hand and with members and officers of intelligence, it might safely be trusted to conduct transactions which might be dangerous in the case of a more strictly rustic association." It is up to the Registrar to consider in each case whether the advantages of allowing jewellery to be taken as security outweigh the disadvantages.

Subsection (3) raises questions of great importance. As a general rule the security for loans given by a credit society should be the member's character backed by two sureties. Loans should be almost entirely on short term, usually for the period of the particular crop, and they should be payable from the proceeds of the sale of that crop. It follows that a mortgage of immovable property should not be required as security for the type of loan which a credit society usually gives.

Calvert says: " . . . The principles of co-operation do not conflict with long-term mortgage loans provided that the money is devoted to productive purposes, but it is better to work on personal rather than material security. . . ." He adds that if mortgages are taken, they should be in addition to the instruments executed by the borrower and his sureties, and not in place of them.

Why then is the Governor given power to restrict the lending of money on mortgage? The reason is that societies, especially at the start, fail to realise that if mortgage security is demanded, the debt should be payable over a period of years, i.e. long term. The funds of the society are on short term in the main, and it is asking for trouble to lend money for, say, five years when the society may be asked to pay it back to depositors after six months (see chapter on short-term and long-term credit).

31. *Deposits and loans received by a registered society.*—A registered society shall receive deposits and loans from persons who are not members only to such extent and under such conditions as may be prescribed by the rules or bylaws.

"*Deposits*" or "*loans.*" Calvert says: " . . . A deposit ordinarily is money lodged in a bank for safety or convenience; here it consists of money offered to the society at fixed rates; while a loan is secured by a society on the lender's terms when it cannot get enough deposits. . . ." This distinction should be kept in mind. Rule 20 provides that the maximum liability

which a society may incur from members and non-members shall be fixed from time to time by the society in general meeting, and it is the duty of the staff to see that this is done regularly. Deposits from members should be encouraged even to the extent of the society taking the money when it does not really need it for loans to other members, as it thereby helps the members to practice thrift. This section, combined with Rule 20, enables members to decide on the full extent of their liability. The resolution at the general meeting will read that it was decided that loans and deposits from members should be left to the discretion of the committee, while those from non-members should not exceed, say, £200. In case of temporary difficulty by the society over the repayment of loans or deposits, members can usually be persuaded to wait a little while for their money, but it is death to the society's credit to ask a non-member to wait for his money. So for every reason, the limit for members should be as high as convenient, while deposits and loans from non-members should be reduced to the minimum required for the society's needs. Loans from a central bank are to a society rather different, and are discussed in the chapter on Secondary Institutions. This section and Rule 20 are also applicable to central banks.

32. *Restrictions on other transactions with non-members.*—Save as provided in Sections 30 and 31, the transactions of a registered society with persons other than members shall be subject to such prohibitions and restrictions as may be prescribed by the rules.

Under Section 30 loans to non-members are prohibited. Under Section 31 deposits and loans may be received from non-members, as decided in general meeting. This section gives power under the rules to prohibit or restrict transactions with non-members. It will be seen that in the Model Rules there is no rule made under the section, but it is a general co-operative principle that transactions with non-members should be avoided. This is normally easy, although purchases of goods made by a society have to be made from non-members when there is no Co-operative Wholesale Society. Difficulty usually arises over sales in stores societies. The store is started by a group of people who have seen one functioning elsewhere and realise how it can help them. Other people go into the store to look at the goods and see the prices. Then they want to buy, and it would be foolish to refuse to sell to them. And

gradually sales to non-members begin. These should be for cash only and never on credit. It is desirable that they should in due course become members and thus get the benefit of the bonus (see definition in Section 2). Profits on trade with non-members should be kept in a separate account, and if possible at the end of the year the bonus which a man would have obtained had he been a member should be made available to him in the form of a share, if by that time he wishes to join the society. It is wrong to distribute among the members in the form of a bonus profits made in stores societies from sales to non-members. Where the main part of a stores society's sales consists in sales to non-members, the Registrar may consider it desirable, after warning, to enquire into the working of the society (Section 37) and after that enquiry to order the cancellation of the society's registration.

Calvert says: " . . . Co-operative societies are associations for mutual help amongst members. They render the best possible service at the lowest possible rate and make no commercial profit. Any surplus is to be returned to the members either as a bonus upon their transactions or as an addition to the society's reserve fund. . . . Co-operation stands for fair play all round. It is open to a body of men to associate together to improve their economic position by legitimate means, but if they compete with private traders they lose their right to special privileges. . . ."

33. *Investment of funds.*—A registered society may invest or deposit its funds:—

(*a*) in the Post Office Savings Bank, or with any bank or person carrying on the business of banking approved for this purpose by the Registrar; or

(*b*) in any securities issued or guaranteed by a Government under the British Crown; or

(*c*) with any other registered society approved for this purpose by the Registrar; or

(*d*) in any other mode approved by the Registrar.

The section lays it down that a society has a right to invest its funds (i.e. those not immediately required for use in its own business) in certain ways. The Registrar's approval is required when the funds are to be invested with a bank or in any other society. The reasons why the approval of the Registrar is necessary for investment in any other society are given in the

notes under Section 30. As regards the bank, the Registrar should be in a position to advise societies whether the bank in which they propose to deposit their funds is sound and whether its terms are reasonable.

If a society wishes to invest its funds in any other way, i.e. to buy land or to build an office or store, it must first get the Registrar's approval. Where the society's owned funds, or in other words the share capital or reserve fund, are sufficient to pay for the land or building, and the Registrar considers that it is to the benefit of the society, he will give his approval. But if he knows that some of the society's loans to members are not easily recoverable and that the society will soon require cash to pay back depositors, he will not approve the purchase of the land or building. His approval for such investments will depend on the financial condition of the society in every case.

Calvert says: " . . . This section refers to funds not immediately required in the business of the society and not merely to the reserve fund. The section is permissive, so a primary society is not debarred from using its reserve fund in its own business. . . ." This question of the utilisation of the reserve fund is discussed in the notes to Rule 66.

34. *Disposal of profits.*—(1) At least one-fourth of the net profits of every registered society, as ascertained by the audit prescribed by Section 35, shall be carried to a fund to be called the reserve fund, which shall be employed as prescribed by the rules. The remainder of such profits and any profits of past years available for distribution may be divided among the members by way of dividend or bonus, or allocated to any funds constituted by the society, to such extent or under such conditions as may be prescribed by the rules or bylaws:

Provided that, in the case of a society with unlimited liability, no distribution of profits shall be made without the general or special order of the Governor.

(2) Any registered society may, with the sanction of the Registrar, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent. of the remaining net profits to any charitable purpose or to a common-good fund.

The word "profits" means the amount shown in the annual profit and loss statement (Rule 53) after the audit provided for in Section 35, as being the surplus on the year's working available for distribution.

In all societies at least one-fourth shall be carried to the reserve fund. This is obligatory on every society. In societies

with unlimited liability, the remaining three-fourths must also be carried to the reserve fund unless the Governor otherwise directs. The effect of this provision is that, even though societies with unlimited liability may have share capital, no dividend is payable on that share capital except by order of the Governor.

Rule 19 (1) provides that in such societies the Governor will not ordinarily approve payment of dividend on share capital until the reserve fund has reached a sum equivalent to one-tenth of the society's total liabilities, and Rule 19 (3) limits the dividend to 5 per cent.

The efforts of members of a society with unlimited liability should be concentrated on building up a strong reserve fund, thus reducing the possibility of their having to pay up if the society does not succeed and if its registration is cancelled. In societies with limited liability, one-fourth of the profits must go to the reserve fund; the remaining three-fourths may be distributed as dividend on share capital (not more than 5 per cent., Rule 19 (3)), on bonus (see comment under Section 2) and to any fund constituted by the society.

The method of distribution is left to rules (Rule 19 (4) and to bylaws.

Calvert says: " . . . Co-operation aims at rendering services to the member at the actual cost of those services. Ordinary business caution requires that some provision should be made for unforeseen contingencies, and accordingly some members are usually called upon to pay more than is necessary. The resulting surplus belongs to the members in the proportion in which they have contributed to it. In stores (distributive societies) this surplus is accordingly returned as a rebate on purchases. In sales societies it is refunded on goods sent for sale. In actual practice it has in England been found expedient to sell at market rates and to return the benefits arising from co-operative purchase in the form of a bonus or rebate commonly referred to as dividend. This aggregate rebate cannot accurately be called profits as it would be absurd to suggest that the members in their corporate capacity were trying to get the better of themselves in their individual capacity. Unfortunately, many people fail to realise that the aim of co-operation is that all should share in the benefits in proportion to the support given by each to the enterprise;

and accordingly it becomes advisable that co-operative laws should make obligatory a truly co-operative method of distributing the earnings. There are four points to be provided for: the payment of interest on capital, the setting aside of a reserve fund, the provision of an educational fund and the distribution of profits in the form of patronage dividends. . . ."

Subsection (2) allows a contribution to charity or to a common-good fund. During 1939–45 in some territories societies became exceedingly displeased with Registrars who pointed out to them that it was illegal to contribute more than a certain amount to the Red Cross. But the law is definite on the point.

The common-good fund is alternative and not in addition to charity. The purpose must be some general benefit to the people in the area of the society's operation and not confined to the good of the members. The construction of an additional water tap in the village would be permissible, or the walling-in of the communal burying ground. An "outing" for members, or cigarettes and tea for the committee would not be permissible.

PART VI—AUDIT, INSPECTION AND INQUIRY

35. *Audit.*—(1) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing the accounts of every registered society once at least in every year.

(2) The audit under subsection (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the registered society.

(3) The Registrar and every other person appointed to audit the accounts of a society shall have power when necessary:—

(*a*) to summon at the time of his audit any officer, agent, servant or member of the society who he has reason to believe can give material information in regard to any transactions of the society or the management of its affairs; or

(*b*) to require the production of any book or document relating to the affairs of, or any cash or securities belonging to, the society by the officer, agent, servant or member in possession of such book, document, cash or securities.

It is the duty of the Registrar to audit the accounts of all societies at least once a year. He may do this by members of his staff or by outside auditors. In the latter event he must satisfy himself that they are fitted to carry out the audit. Apart from the general audit in subsection (1) and the examination

and valuation described in subsection (2) it is the duty of the auditor to look into the workings of the society and see that it is complying with the Ordinance, Rules and Bylaws and also with the principles of co-operation. This is a different affair from the normal commercial audit, and for that reason it is often the practice for members of the co-operative staff to audit primary societies in the area in which they are working until such time as a society for supervision and audit has been registered. In addition to the checking of accounts and certification of the balance sheet, the co-operative auditor should prepare a report to the Registrar, a copy of which goes to the society, and is considered at the general meeting (see Rule 24 (*b*)).

This report should be a frank statement of the workings of the society over the past year and an analysis of its financial position. Disregard of the Ordinance, Rules or Bylaws should be noted in the report, but criticisms of conduct of individual officers or employees of the society are best made in a special confidential report to the Registrar, who decides in what form the information should be conveyed to the society. If the books are found to be kept in a slovenly fashion or are not up-to-date, this should be recorded in the report.

This annual audit is one of the main reasons why so much confidence is placed in societies not only by the members but also by the public.

Calvert says: " . . . It is hardly an exaggeration to say that proper audit is more important in a co-operative society than in a joint stock company. It is not every member who has time to examine the accounts, yet it is every member who is responsible for any loss incurred. The committee are elected in general meeting but, once elected, their powers are very complete. Even the most honest or well-meaning members of the committee may be liable to err. The members must have an independent opinion on the management of their committee. This does not arise from mistrust but from ordinary business caution. It is easily understood that, among friends, there may be some hestitation on insisting on an independent audit, and it, though primarily intended for the members, is also absolutely necessary for the protection of the members of the committee against charges which cannot be supported. Regarded from every point of view, audit is

absolutely essential to the successful, as well as to the smooth administration of every society. . . ."

Subsection (3) should be read in conjunction with Section 58, which provides penalties for non-compliance.

Members of the co-operative staff should note that while they have power to summons an officer or member, they cannot force him to reply to questions, and, where fraud is suspected, a report should at once be made to the police, the member of the staff assisting the police during investigation. They should not try to carry out an investigation themselves, and they should never try by promises of non-prosecution to get the secretary to confess, or give him time to produce any cash which may not be forthcoming.

36. *Power of Registrar to inspect societies' books, etc.*—The Registrar, or any person authorised by general or special order in writing by the Registrar shall at all times have access to all the books, accounts, papers and securities of a registered society, and shall be entitled to inspect the cash in hand; and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

This section gives power to the Registrar and to the co-operative department staff to carry out the ordinary routine inspections which are so necessary, especially when societies begin to function. Section 35 deals with audit and only audit, and for that reason this section repeats much of subsection (3) of Section 35. It acts as a reminder to the officers of the society of their obligations to produce cash, books, etc., on demand by a duly authorised person.

Penalties for non-compliance are provided in Section 53.

Surprise visits by members of the staff ensure that the secretary keeps his books up-to-date, and an early return visit to see if the secretary has complied with advice given has a considerable effect.

37. *Inquiry and inspection.*—(1) The Registrar may of his own motion, and shall on the application of a majority of the committee, or of not less than one-third of the members of a registered society, hold an inquiry or direct some person authorised by him by order in writing in this behalf to hold an inquiry into the constitution, working and financial condition of a registered society; and all officers and members of the society shall furnish such information in regard to the affairs of the society and produce the cash in hand and such books, accounts, papers and securities of the society as the Registrar or the person authorised by him may require.

(2) The Registrar shall, on the application of a creditor of the registered society, inspect or direct some person authorised by him in writing in this behalf to inspect the books of the society, if the applicant:—

(*a*) proves that an ascertained sum of money is then due to him and that he has demanded payment thereof and has not received satisfaction within a reasonable time; and

(*b*) deposits with the Registrar such sum as security for the costs of the proposed inspection as the Registrar may require.

(3) The Registrar shall communicate the results of any such inspection to the creditor and to the society into whose affairs inquiry has been made.

(4) Where an inquiry is held under subsection (1) or an inspection is made under subsection (2), the Registrar may apportion the costs or such part of the costs, as he may think right, between the registered society, the members demanding an inquiry, the officers or former officers of the society, and the creditor, if any, on whose application the inquiry was made.

(5) Any sum awarded by way of costs against any society or person under this section may be recovered, on application to a magistrate's court having jurisdiction in the place where the registered office of the society is situated or the person resides or carries on business for the time being, in like manner as a fine imposed by the court.

In addition to audit (Section 35) and ordinary inspection (Section 36) this section provides for a special enquiry and inspection. An enquiry may be ordered by the Registrar either when he thinks fit or on application by the committee, or by not less than one-third of the members.

If, for example, one-third of the members consider that the committee, elected by them one year before, are not running the society properly, they may ask the Registrar to hold an enquiry. The result of the enquiry is communicated to them by the Registrar and the next move is for them to call a special general meeting (see Rule 25) to consider the report and to decide what action should be taken. If the report discloses that the committee have acted carelessly or neglected their duty, the meeting may pass a resolution that the committee should resign.

The advantage of the enquiry is that the members have an independent report on which they can take action, and a mere request to the committee to resign without reasons why they should do so would not necessarily be effective.

So, too, a creditor who has doubts about the financial policy of a society to which he has lent money, or in which he has

deposited money, may ask for an inspection, and he is entitled to see a copy of the report.

In both cases the Registrar may ask the members or the creditor, as the case may be, or the officers of the society, if they are known to have been seriously at fault, to pay for the costs of the enquiry or inspection, and these costs may be collected through the courts just as an ordinary fine is collected.

Calvert says: " . . . It is very important that there should be ensured to the members some method of ascertaining what are the contracts into which their society has entered, how their committee are carrying on the business and what is the financial condition of the concern. This right to an enquiry is important for the maintenance of the principle of equitable association. It gives a minority of the members the right to learn what is being done by the committee elected by the majority. . . ."

It is equally important that creditors should have a right to know what is going on if sums are due to them by the society and are not paid within a reasonable time.

PART VII—DISSOLUTION

38. *Dissolution.*—(1) If the Registrar, after holding an inquiry or making an inspection under Section 37 or on receipt of an application made by three-fourths of the members of a registered society, is of opinion that the society ought to be dissolved, he may make an order for the cancellation of the registration of the society.

(2) Any member of a registered society may, within two months from the date of an order under subsection (1), appeal from such order to the Governor.

(3) Where no appeal is presented within two months from the making of an order cancelling the registration of a society, the order shall take effect on the expiry of that period. Where an appeal is presented within two months, the order shall not take effect until it is confirmed.

(4) Where the Registrar makes an order for the cancellation of the registration of a society under subsection (1) he may make such further order as he may think fit for the custody of the books and documents and the protection of the assets of the society until the order cancelling registration takes effect.

(5) No registered society shall be wound up save by an order of the Registrar.

One of the most unpleasing jobs which members of the co-operative staff may be called upon to do is the liquidation

of a society, especially when they themselves have been responsible for its organisation. It is important that they should know the law about dissolution, and it is equally important that the work of liquidation should be done properly and quickly. The corpse should be buried with the right funeral customs, but the ceremonies should be soon over.

It will be seen that the first step is an enquiry or an inspection or an application by three-fourths of the members, although it is unusual for the last to happen, since when the society is in a moribund state the members lose interest and will not take the trouble to attend a meeting. Generally it is the Registrar who, realising from the reports of the staff that the society is in a bad way and is unable to pay its debts, orders an enquiry, and as the result of that enquiry makes an order for the cancellation of the society. This enquiry is usually made by the staff, and it is important that it should be clear and in detail so that the Registrar may know all the facts before he makes his decision to cancel registration. The order does not take effect for two months, so as to allow time for an appeal to the Governor. During that time the society remains in being, but the Registrar will, when making the order for the cancellation, make a further order under subsection (4) that a member of the staff is to take over all the books and documents and also take charge of the society's assets. This will prevent the committee from making any attempt to dispose of the society's assets before the order of cancellation takes effect, i.e. after two months, in order possibly to pay one creditor in advance of the others.

In some legislation the procedure is for the Registrar to issue a winding-up order and at the same time to appoint a liquidator to take charge. An appeal to the Governor is provided, and during the interim period the liquidator does not do anything except take over. If the appeal does not succeed or there is no appeal, he then proceeds to liquidate. And it is only when the liquidation is complete that the registration of the society is cancelled. The advantage of this procedure is that the liquidator steps in at once and that during the period of liquidation he acts in the name of the society, which remains a body corporate. Sections 40–47 of the Cyprus Co-operative Societies Law, 1939, are an example of this procedure.

39. *Cancellation of registration of a society due to lack of membership.*—The Registrar may, by order in writing, cancel the registration of any registered society other than a society which includes among its members one or more registered societies, if at any time it is proved to his satisfaction that the number of the members has been reduced to less than ten. Every such order shall take effect from the date thereof.

This section provides for cancellation of registration when members are less than ten. Under Section 5 the Registrar is not allowed to register a society with less than 10 members, and it follows that when the original members are not able to interest any other people, and one of them has died or resigned, the society does not comply with the law and it is not worth keeping it on. In this case there is no appeal, and the order of cancellation comes into force immediately.

It should be noted that this section does not apply to secondary institutions, i.e. central banks, unions, etc. The original membership (Section 5) in such societies may be less than 10.

40. *Effect of cancellation of registration.*—Where the registration of a society is cancelled by an order under Section 38 or under Section 39 the society shall cease to exist as a corporate body from the date on which the order takes effect, hereinafter referred to as the date of dissolution:

Provided that any privileges conferred on the society by or under Sections 14, 15, 16 and 17 shall be deemed to be vested in any liquidator appointed for that society by the Registrar.

The society remains in being until the order of cancellation takes effect. There is an interval of two months at least, and possbily more, until the Governor's decision on the appeal has been given (Section 38), before the society ceases to exist as a corporate body and until the liquidator appointed under Section 42 takes over.

During the interval the society remains, as it were, in a state of coma. It is unable to function since the books and documents have been taken away from it and the assets are under the charge of a member of the staff.

When the liquidator begins operations he has certain privileges of the society, namely "charge" under Section 14, the right to set off members' shares and deposits against their debts (Section 15) and the right to freedom from attachment of shares (Section 16).

41. *Liquidation after cancellation of registration of society.*—Where the registration of a society is cancelled under Section 38 or Section 39

the Registrar may appoint one or more persons to be, subject to his direction and control, the liquidator or liquidators of the society.

The liquidator cannot be appointed until the order of cancellation takes effect. He works under the direction and control of the Registrar. The liquidator's first duty will be to take over all the books and documents and the assets of the society from the member of the staff who has been looking after them in accordance with the Registrar's order under Section 38 (4).

As a matter of administrative convenience it will often be found that the liquidator and the member of the staff are one and the same person, especially in the case of rural societies, but it is important to realise that under the Ordinance the two functions are separate. The act of liquidation begins at this stage of the appointment of the liquidator. It is convenient both for the Registrar and the liquidator that the Registrar's directions should be communicated in writing. For this purpose a simple form may be prepared stating which of the liquidator's powers under Section 42 should be used and the order which should be followed. Any special directions may be added to the form.

42. *Liquidator's powers.*—(1) A liquidator appointed under Section 41 shall, subject to the guidance and control of the Registrar and to any limitations imposed by the Registrar by order under Section 43, have power to:—

(*a*) determine from time to time the contribution to be made by members and past members or by the estates of deceased members of the society to its assets;

(*b*) appoint a day by proclamation or notice before which creditors whose claims are not already recorded in the books of the society shall state their claims for admission or be excluded from any distribution made before they have proved them;

(*c*) decide any question of priority which arises between creditors;

(*d*) refer disputes to arbitration and institute and defend suits and other legal proceedings on behalf of the society by his name or office;

(*e*) decide by what persons and in what proportions the costs of liquidation are to be borne;

(*f*) give such directions in regard to the collection and distribution of assets as may be necessary in the course of winding-up the society;

(*g*) compromise any claim by or against the society provided the sanction of the Registrar has first been obtained;

(*h*) call such general meetings of members as may be necessary for the proper conduct of the liquidation;

(*i*) take possession of the books, documents and assets of the society;

(*j*) sell the property of the society;

(*k*) carry on the business of the society so far as may be necessary for winding it up beneficially: provided that nothing herein contained shall entitle the liquidator of a credit society to issue any loan; and

(*l*) arrange for the distribution of the assets of the society in a convenient manner when a scheme of distribution has been approved by the Registrar.

(2) Subject to such rules as may be made in this behalf, any liquidator appointed under this Ordinance shall, in so far as such powers are necessary for carrying out the purposes of this section, have power to summon and enforce the attendance of parties and witnesses and to compel the production of documents by the same means and (so far as may be) in the manner as is provided in the case of a Civil Court.

The powers of a liquidator are very wide, although the Registrar is entitled to limit them (Section 43) and in any event he is subject to the Registrar's direction and control, which should be communicated to him in writing (see comment under Section 41).

(*a*) "*Contribution.*" Calvert says: " . . . Contribution usually means the amount payable by a member as such and does not include debts payable to the society. It is the unpaid portion of the liability. In a limited liability society with fully paid up capital it is nil unless it be held that dividends have been paid without being earned, in which case perhaps these might be recovered. It is not prescribed whether, in an unlimited liability society with share capital, the liquidator should fix contributions according to shares held or equally. As members' liability is equal, irrespective of the number of shares held, the contributions should be equal up to the limit of the capacity of the smaller members; thereafter it is inevitable that the richer should pay more. . . ." Not only members but past members and the estates of deceased members may be called upon to pay (see comment on Section 29). "From time to time" gives power to the liquidator to modify his original order or to issue a fresh order.

(*b*) This sub-clause gives power to a liquidator to fix a day for creditors to state their claims. Any claim received after that day would not be considered.

(*c*) Some creditors may claim priority over certain assets of the society. There is also the question of priority in time to be considered.

(*d*) The liquidator may refer disputed claims, etc., to arbitration under the special arbitration procedure provided by Section 49. In that respect he has the same privilege as a registered society, and it will be found of great convenience in the speedy clearing up of the affairs of the society. As liquidator he represents the society in any court case, but Section 45 should be noted in this connection.

(*e*) The liquidator is empowered to charge the costs of liquidation to some or all members or to some or all creditors, or proportionately as he thinks fit. Everything depends on the final balance sheet. If there is a balance in the reserve fund it is reasonable to charge expenses of liquidation to the society as a whole.

(*f*) This enables the liquidator to realise all the assets of the society in such way as he thinks best.

(*g*) The power to compromise any claim by or against the society is useful and may help considerably in liquidating a society. For example, in a marketing society the society may have a store. There is only one creditor and he may be ready to accept the store in payment of his debt, even though its value at auction may be less than the debt.

(*h*) While the liquidator has power to summon a general meeting, he has no power to enforce attendance, and when a society is in liquidation the members are not likely to take much interest. Nevertheless, it is desirable to summon a meeting so that members may be made aware of what is going on, and they may also be asked for their views on certain matters.

(*i*) See comment under Section 41.

(*j*) Specific power to sell the society's property is given although such power is inherent in the power to collect assets (*f*).

(*k*) The liquidator can only carry on the business of the society for the purpose of winding it up. He is not allowed to do any new business, but he may, for example, continue sales at a stores society to dispose of the goods. It is not likely that anyone would wish to make a deposit in a society under liquidation.

(*l*) The liquidator's final act is to report to the Registrar what he has done and to put forward a scheme of distribution. The society's assets have realised £20 in cash. The society creditors are 10 in number. Their claims amount to £60 in all, varying from £3 to £10 each. The liquidator will probably recommend distribution among the 10 creditors of one-third of each of their claims. On receipt of the Registrar's approval, he will pay out to the creditors accordingly. It is usual for all the books and documents to be sent to the Registrar to be kept for record purposes.

Subsection (2) gives power to the liquidator to summon witnesses, etc., in the manner provided as in a civil court. There is nothing in the Model Rules, as conditions are different in each territory.

43. *Power of Registrar to control liquidation.*—A liquidator shall exercise his powers subject to the control and revision of the Registrar, who may:—

- (*a*) rescind or vary any order made by a liquidator and make whatever new order is required;
- (*b*) remove a liquidator from office;
- (*c*) call for all books, documents and assets of the society;
- (*d*) by order in writing limit the powers of a liquidator under Section 42;
- (*e*) require accounts to be rendered to him by the liquidator;
- (*f*) procure the auditing of the liquidator's accounts and authorise the distribution of the assets of the society;
- (*g*) make an order for the remuneration of the liquidator; or
- (*h*) refer any subject of dispute between a liquidator and any third party to arbitration if that party shall have consented in writing to be bound by the decision of the arbitrator.

The principle is that a liquidator works under the direction and control of the Registrar (Section 41). This section shows the control which may be exercised.

If the Registrar considers that an order has ben wrongly made by the liquidator he may rescind or vary it. If he considers that the liquidator is not doing his work properly he may dismiss him and appoint another liquidator. He may call for books, etc. and also ask the liquidator at any time or at regular intervals to send in accounts.

He may, and indeed should, have the liquidator's accounts audited. He fixes the pay for the liquidator and when he may

be paid. Sometimes it is best for the liquidators to be paid after the accounts have been finally closed. When the liquidator is a member of the staff no additional remuneration is paid, although all travelling and other expenses should be charged to the liquidation account and not to the ordinary government votes.

It is the Registrar, not the liquidator, who finally authorises the distribution of assets (see comment, Section 42 (1)).

Power is given under subsection (*h*) to refer a dispute between the liquidator and a non-member to arbitration.

44. *Enforcement of order.*—(1) The decision of an arbitrator on any matter referred to him under Section 43 shall be binding upon the parties, and shall be enforceable in like manner as an order made by the Registrar under that section.

(2) An order made by a liquidator or by the Registrar under Section 42 or Section 43 shall be enforced by any civil court having jurisdiction over the place where the registered office of the society is situated in like manner as a decree of that court.

The section ensures that the arbitrator's decision in cases referred to him under Section 43, and any order made by a liquidator or by the Registrar under Sections 42 and 43, can be enforced in the same way as an order of the civil court.

45. *Limitation of the jurisdiction of the civil court.*—Save in so far as is hereinbefore expressly provided, no civil court shall have any jurisdiction in respect of any matter concerned with the dissolution of a registered society under this Ordinance.

The policy behind this section is that questions arising from liquidation of societies shall be settled without reference to the courts. A speedy and comparatively inexpensive method is provided by the Ordinance, and reference to the court either by members or by creditors would only prolong the time taken for liquidation and add considerably to the expense. The arbitration procedure is open both to members and creditors and decisions on questions in the dispute can be reached through that procedure. Section 50 provides for the Registrar to refer any question of law to the Supreme Court.

46. *Closure of liquidation.*—(1) In the liquidation of a society whose registration has been cancelled, the funds, including the reserve fund, shall be applied first to the costs of liquidation, then to the discharge of the liabilities of the society, then to the payment of the share capital and then, provided the bylaws of the society permit, to the payment

of a dividend at a rate not exceeding 10 per cent. per annum for any period for which no disposal of profits was made.

(2) When the liquidation of a society has been closed and any creditor of that society has not claimed or received what is due to him under the scheme of distribution, notice of the closing of the liquidation shall be published in the *Gazette*; and, all claims against the funds of the society liquidated shall be proscribed when two years have elapsed from the date of the publication of the *Gazette* notice.

(3) Any surplus remaining after the application of the funds to the purposes specified in subsection (1) and the payment of any claims for which an action is instituted under subsection (2) shall be available for use by the Registrar for any co-operative purpose at his discretion.

This section should be read in conjunction with Section 42 (1) (*l*), subsection (1) being in effect an instruction to the liquidator how to arrange his scheme of distribution.

Having first realised all the assets of the society and thereby being in possession of a certain amount of money, he must use that money, so long as it lasts, in the following order: (1) to pay costs of liquidation; (2) to pay out the creditors' claims in full; (3) to pay the value of shares held by each shareholder-member of the society; and (4) to pay a final dividend on share capital as laid down in the section. It is unlikely that stages (3) or (4) will be reached except on rare occasions, as if the society were in a position to satisfy all its creditors its registration would not be cancelled, but this might happen, and the Ordinance provides for the possibility.

Subsection (2) allows a period of two years for claims to money under the scheme of distribution to be paid. This does not refer to any claims which have not been sent in to the liquidator by the date fixed (see Section 42 (1) (*b*)), but only to those considered by him. It may happen that a creditor has gone away on a long journey and was therefore unable to collect from the liquidator the money due to him. When two years have passed, he has no right to get his money. The date is fixed by notification in the *Gazette*.

Subsection (3) covers the event of a surplus after all moneys have been paid out, in accordance with subsections (1) and (2).

Neither of these events are very likely, but provision has to be made in the Ordinance, and any money remaining may be used by the Registrar for co-operative purposes. One way would be to place the money in the Audit and Supervision Fund (Rule 68).

Part VIII—Surcharge and Attachment

47. *Power of Registrar to surcharge officers, etc., of a registered society.*—(1) Where, in the course of the winding-up of a registered society it appears that any person who has taken part in the organisation or management of such society or any past or present officer of the society has misapplied or retained or become liable or accountable for any money or property of such society or has been guilty of misfeasance or breach of trust in relation to such society, the Registrar may, on the application of the liquidator or of any creditor or contributory, examine into the conduct of such person and make an order requiring him to repay or restore the money or property or any part thereof with interest at such rate as the Registrar thinks just or to contribute such sum to the assets of such society by way of compensation in regard to the misapplication retainer, dishonesty or breach of trust as the Registrar thinks just.

(2) This section shall apply notwithstanding that the act is one for which the offender may be criminally responsible.

The Registrar is given power under this section to call upon any member of the committee or officer or employee of the society to pay for any sins of dishonesty, as set out in subsection (1), which he may have committed. But the Registrar's power can only be used when the sins come to light during the course of liquidation. It may be that a secretary of a society has made out false receipts and has shown in the books that loans were given to three members totalling £50. The Registrar may then make an order requiring him to pay the sum of £50 to the liquidator.

To make this and other powers of the Registrar and the liquidator more effective, the following section should be added: "Attachment of property. Where the Registrar is satisfied that any person with intent to defraud or delay the execution of any order which may be made against him under Section 42 or Section 47 or of any decision that may be given in a dispute referred to the Registrar or to any arbitrators under any rules in that behalf in full for the time being is about to dispose of the whole or any part of his property, the Registrar may, unless adequate security is furnished, order the conditional attachment of such property, and such attachment shall have the same effect as if made by a competent court." The Madras Co-operative Societies Act, 1932, and the Cyprus Co-operative Societies Law, 1939, both have a section to this effect, and the non-inclusion of such a section in the Model Ordinance is presumably an error of omission.

There may also be a provision that an order by the Registrar under Section 47 may be enforced in the same way as an order of a competent court.

48. *Appeal to the Governor.*—Any person aggrieved by any order of the Registrar made under Section 47 may appeal to the Governor within 21 days from the date of such order and the decision of the Governor shall be final and conclusive.

An appeal to the Governor provides a safeguard in case the Registrar uses his powers under Section 47 in an arbitrary fashion.

Part IX—Disputes

49. *Settlement of disputes.*—(1) If any dispute touching the business of a registered society arises:—

(*a*) among members, past members and persons claiming through members, past members and deceased members; or

(*b*) between a member, past member, or person claiming through a member, past member or deceased member, and the society, its committee, or any officer of the society; or

(*c*) between the society or its committee and any officer of the society; or

(*d*) between the society and any other registered society;

such dispute shall be referred to the Registrar for decision.

A claim by a registered society for any debt or demand due to it from a member, past member or the nominee, heir or legal representative of a deceased member, shall be deemed to be a dispute touching the business of the society within the meaning of this subsection.

(2) The Registrar may, on receipt of a reference under subsection (1):—

(*a*) decide the dispute himself; or

(*b*) refer it for disposal to an arbitrator or arbitrators.

(3) Any party aggrieved by the award of the arbitrator or arbitrators may appeal therefrom to the Registrar within such period and in such manner as may be prescribed.

(4) A decision of the Registrar under subsection (2) or in appeal under subsection (3) shall be final and shall not be called in question in any civil court.

(5) The award of the arbitrator or arbitrators under subsection (2) shall, if no appeal is preferred to the Registrar under subsection (3), or if any such appeal is abandoned or withdrawn, be final and shall not be called in question in any civil court and shall be enforced in the same manner as if the award had been a judgment of a civil court.

This section should be read in conjunction with Rules 72–75, which show how arbitration proceedings are carried out.

"Arbitration" means the settlement of a dispute by a person or persons chosen or agreed to by the parties to the dispute. Such person is called an arbitrator and his decision is known as an award.

The object of the Ordinance is to encourage "the promotion of thrift, mutual help and self-help among agriculturists, artisans and other persons with needs in common," and in order to avoid lengthy and often expensive law suits, a special procedure for the settlement of disputes is provided in the Ordinance. There is no choice in the matter. All disputes shall be referred to the Registrar for decision.

The question then arises, what is a dispute. Calvert says: "... Ordinarily the word 'dispute' includes all matters which would form the subject of litigation ..." and it is made quite clear in the Ordinance that any claims for a debt or demand due to a member or past member is a dispute (last sentence of subsection (1)). Where a society is owed money by a member and he refuses to pay on the due date, that is a dispute and the society has to refer it to the Registrar for decision. Similarly, if any member considers that the method of election of the committee was not in accordance with the Ordinance and the Rules, he is entitled to refer the matter to the Registrar for decision. He is not entitled to apply to the courts.

The Registrar may decide the dispute himself, but it is more usual for him to refer it to an arbitrator or arbitrators. In a co-operative movement which is just starting, members of the staff are often appointed to act as arbitrators, since there is no one in the area with knowledge of the law or of the proper procedure. But as the movement develops, arbitrators are chosen from among members of committees of nearby societies who have learnt the procedure in their own societies. Rules 72–75 should be carefully studied by members of the staff in order that the proper procedure may be followed. It will be seen that the decision of the Registrar, when he decides the dispute himself, the award of the arbitrators or the decision of the Registrar on an appeal from the award of the arbitrators, cannot be called in question by any civil court.

It is therefore all the more necessary that the greatest possible care should be taken over these arbitration cases. In debt cases they are usually simple. The audited books of the society show clearly what the member owes, and it is rarely that the

member will refuse to acknowledge his debt. But all details should be checked carefully before the arbitrator signs the award.

Section 20 and Rule 71 provide for copies of entries in the society's books duly certified to be admissible as evidence in arbitration proceedings.

This arbitration procedure is not applicable when a society wishes to enforce a claim on a non-member (see subsection (1)).

50. *Case stated on question of law.*—(1) Notwithstanding anything contained in the last foregoing section, the Registrar at any time when proceeding to a decision under this Ordinance, or the Governor at any time when an appeal has been preferred to him against any decision of the Registrar under this Ordinance, may refer any question of law arising out of such decision for the opinion of the Supreme Court.

(2) Any Judge, or Judges, of the Supreme Court as the Chief Justice may direct, may consider and determine any question of law so referred, and the opinion given on such question shall be final and conclusive.

There may be cases where some difficult question of law is involved, and this section provides for such cases to be referred by the Registrar or, when an appeal from the Registrar's decision is involved, by the Governor to the Supreme Court.

Part X—Rules

51. *Rules.*—(1) The Governor may make all such rules as may be necessary for the purpose of carrying out or giving effect to the principles and provisions of this Ordinance.

(2) In particular, and without prejudice to the generality of the power conferred by subsection (1), such rules may:—

(*a*) prescribe the forms to be used and the conditions to be complied with in applying for the registration of a society and the procedure in the matter of such applications;

(*b*) prescribe the conditions to be complied with by persons applying for admission or admitted as members, and provide for the election and admission of members from time to time, and the payment to be made and interest to be acquired before exercising rights of membership;

(*c*) subject to the provisions of Section 27 of this Ordinance, prescribe the maximum number of shares or portion of the capital of a registered society which may be held by a member;

(*d*) prescribe the extent to which a registered society may limit the number of its members;

(*e*) provide for the withdrawal and expulsion of members and for the payments to be made to members who withdraw or are expelled, and for the liabilities of past members;

(*f*) provide for general meetings of the members and for the procedure at such meetings and the powers to be exercised by such meetings;

(*g*) provide for the appointment, suspension and removal of the members of the committee and other officers, and for the procedure at meetings of the committee, and for the powers to be exercised and the duties to be performed by the committee and other officers;

(*h*) prescribe the matters in respect of which a society may or shall make bylaws and for the procedure to be followed in making, altering and rescinding bylaws, and the conditions to be satisfied prior to such making, alteration or rescission;

(*i*) regulate the manner in which funds may be raised by means of shares or debentures or otherwise;

(*j*) prescribe the conditions to be observed by a registered society applying for financial assistance from Government;

(*k*) prescribe the payments to be made, the conditions to be complied with, and the forms of the bonds, instruments or other documents to be executed, by members applying for loans or cash credits, the period for which loans may be made or credits granted, and the maximum amount which may be lent and the maximum credit which may be allowed to individual members with or without the consent of the Registrar;

(*l*) provide for the mode in which the value of a deceased member's interest shall be ascertained, and for the nomination of a person to whom such interest may be paid or transferred;

(*m*) provide for the mode in which the value of the interest of a member who has become of unsound mind and incapable of managing himself or his affairs shall be ascertained and for the nomination of any person to whom such interest may be paid or transferred;

(*n*) provide for the formation and the maintenance of reserve funds, and the objects to which such funds may be applied, and for the investment of any funds under the control of any registered society;

(*o*) prescribe the conditions under which profits may be distributed to the members of a society with unlimited liability and the maximum rate of dividend which may be paid by societies;

(*p*) prescribe the accounts and books to be kept by a registered society, and for the periodical publication of a balance sheet showing the assets and liabilities of a registered society;

(*q*) provide for the audit of the accounts of registered societies and for the charges, if any, to be made for such audit and provide for the levy of contributions from all or any registered societies to a fund to be used for the audit and supervision of existing

societies and co-operative propaganda and prescribe for the administration of such a fund;

(*r*) prescribe the returns to be submitted by registered societies to the Registrar, and the persons by whom and the form in which the same are to be made;

(*s*) provide for the persons by whom, and the form in which, copies of entries in books of registered societies may be certified;

(*t*) provide for the formation and maintenance of a register of members, and, where the liability of members is limited by shares, of a register of shares;

(*u*) provide for the inspection of documents and registers at the Registrar's office and the fees to be paid therefor and for the issue of copies of such documents or registers;

(*v*) prescribe the manner in which any question as to the breach of any bylaw or contract relating to the disposal of produce to or through a society, may be determined, and the manner in which the liquidated damages for any such breach may be ascertained or assessed;

(*w*) prescribe the mode of appointing an arbitrator or arbitrators and the procedure to be followed in proceedings before the Registrar or such arbitrator or arbitrators;

(*x*) prescribe the procedure to be followed by a liquidator appointed under Section 41 and the cases in which appeals shall lie from the orders of such liquidator;

(*y*) prescribe the forms to be used, the fees to be paid, the procedure to be observed and all other matters connected with or incidental to the presentation, hearing and disposal of appeals under this Ordinance or the rules.

It will be seen that the Model Rules do not cover all the parts of subsection (2) but it is open to governments to make such rules as in the circumstances prevailing in the territory are considered desirable.

For example, subsection (2) (*c*) provides for the maximum number of shares to be held by any member. The Ordinance says (Section 27) that a member may not hold more than one-fifth. If that amount is considered too high, a rule, limiting the holding to one-tenth, or whatever proportion is considered desirable, may be published. Similarly, a rule may be published providing for the procedure to be followed by a liquidation (subsection (2) (*x*). Since, however, liquidators work under the direction of the Registrar, it is generally more convenient for the liquidator to be informed of the procedure which he should follow by means of directions from the Registrar (see comment under Section 41).

Part XI—Miscellaneous

52. *Recovery of sums due to Government.*—(1) All sums due from a registered society or from an officer or member or past member of a registered society as such to the Government may be recovered in the manner provided for the recovery of debts due to the Government under the law for the time being in force.

(2) Sums due from a registered society to the Government and recoverable under subsection (1) may be recovered first, from the property of the society; secondly, in the case of a society of which the liability of members is limited, from the members subject to the limit of their liability; and thirdly, in the case of other societies, from the members.

The reason for this special provision for the recovery of sums due to government—that they may be collected in the same way as taxes are collected by a tax collector—is that in order to help societies at the start government may decide to give loans on certain terms. To make sure that these government loans can be easily recovered, they are made collectable as taxes. It will be noticed that in societies with unlimited liability, government may take action against members individually, i.e. without going through the ordinary procedure of liquidation.

53. *Powers to exempt any society from requirements as to registration.*—Notwithstanding anything contained in this Ordinance the Governor may by special order in each case and subject to such conditions as he may impose, exempt any society from any of the requirements of this Ordinance as to registration.

Calvert says: "... In the body of the Act have been included those provisions which it is believed will be suitable to the type of co-operative societies that is most likely to come into existence in this country (India) and these provisions will constitute the normal law which will apply of its own force to these societies in general. But a local government will have an absolutely free hand to depart from or vary them on condition that it does so by special order in each case and after full consideration of all the circumstances which justify the departure. Of course, it is intended that this power should be exercised only on behalf of societies, the aims of which are consonant with the objects which the Act is intended to promote. . . ."

54. *Power to exempt societies from provisions of Ordinance.*—The Governor may by general or special order exempt any registered society or class of societies from any of the provisions of this Ordinance, or

may direct that such provisions shall apply to any society or class of societies with effect from such date or with such modifications as may be specified in the order.

This power may be used in various circumstances. Societies of a relatively ambitious kind may have been registered under a previous Ordinance when a new Ordinance based on the Model Ordinance comes into operation. In those circumstances, where the full measure of control which any society, especially in its infancy, may need, is provided under the Ordinance, societies previously registered may be exempted from certain provisions. Such societies may also have certain items in their constitution which are not in accordance with the provisions of the new Ordinance, and consequently it is reasonable that exemptions should be given.

It is the practice in the Punjab to exempt purely thrift societies, those that have provision in their bylaws neither for borrowing nor for lending to their members, from the requirement to set apart any portion of their profits to the reserve fund (see Section 34).

Thrift societies usually invest their funds in the Post Office or government securities, and run no risk since they do not lend to members. The need for a reserve fund does not therefore arise.

And it may happen that an old-established society has over a period of years accumulated sufficient reserves to meet all its liabilities. In that event, too, exemption from the provisions of Section 34 would be reasonable.

55. *Power to exempt from stamp duty and registration fees.*—(1) The Governor by notification in the *Gazette* may, in the case of any registered society or class of registered societies, remit:—

(*a*) the stamp duty with which, under any law for the time being in force, instruments executed by or in behalf of a registered society, or by an officer or member, and relating to the business of such society, or any class of such instruments are respectively chargeable; or

(*b*) any fee payable under the law of registration for the time being in force.

(2) A notification exempting any registered society from the fees referred to in paragraph (*b*) of subsection (1) may provide for the withdrawal of such exemption.

Calvert says: " . . . The whole idea of the movement is service for the mutual benefit without profit, and it is because

profit making is not an object of societies that government can remit various dues without unduly favouring them against companies and private traders. . . ." It is usual for societies to be given exemption from stamp duty on their instruments, but this exemption does not cover receipts given by non-members, e.g. where a non-member signs a surety bond and a stamp is required under the law, the exemption does not apply. Cheques issued by a society are exempt, but a non-member depositor's receipt for the withdrawal of his deposit should be stamped.

Receipts given by traders to the society for goods supplied must be stamped. Members of the staff should be careful to see that the law in this respect is being complied with, as secretaries are apt to think that stamps are not required on any documents. The word "registration" is here used in connection with the registration of instruments, not of societies, and in this respect the societies are usually exempted from the payment of fees for the registration of any instrument executed by any officer or member of the society and relating to its business.

The profits of societies are normally exempted from income tax by the local income tax legislation, and for that reason such exemption is not mentioned in the Model Ordinance.

56. *Prohibition of the use of the word "co-operative."*—(1) No person other than a registered society shall trade or carry on business under any name or title of which the word "co-operative" is part without the sanction of the Governor: Provided that nothing in this section shall apply to the use by any person or his successor in interest of any name or title under which he traded or carried on business at the commencement of this Ordinance.

(2) Any person who contravenes the provisions of this section shall be guilty of an offence and shall be liable on summary conviction to a fine not exceeding five pounds, and in the case of a continuing offence to a further fine not exceeding one pound for each day during which the offence continues.

The purpose of this section is to prevent the use of the word "co-operative" in a business name where the enterprise is not one registered as a co-operative society under the Ordinance. It is to protect the public, so that when the word "co-operative" appears in any business name they may know that it is a co-operative society proper and not a trading concern pretending to be one. Businesses using the word before the

enactment of the Ordinance are exempted from the prohibition. The penalty for an offence against this section will be noted.

57. *Companies Ordinance and Trade Unions Ordinance not to apply.*—(A section may be required to exclude the application to societies registered under this Ordinance of other legislation relating to associations, such as Trade Union and Companies Ordinances which might otherwise be inapt to co-operative societies.)

Companies are dealt with under the ordinary Company Law. Similarly, trade unions are dealt with under the Trade Union Law. Co-operative societies have their own special legislation and the section makes it clear that legislation dealing with companies or trade unions does not apply to co-operative societies.

58. *Penalty for non-compliance with Ordinance.*—(1) (*a*) Any registered society or an officer or a member thereof, wilfully neglecting or refusing to do any act or to furnish any information required for the purposes of this Ordinance by the Registrar or other persons duly authorised by him in this behalf; or

(*b*) any person wilfully or without any reasonable excuse disobeying any summons, requisition or lawful written order issued under the provisions of this Ordinance, or failing to furnish any information lawfully required from him by a person authorised to do so under the provisions of this Ordinance, shall be guilty of an offence under this Ordinance.

(2) Every offence referred to in subsection (1) shall be punishable with a fine not exceeding:—

This section provides penalties for wilful neglect or disobedience by a society and for wilful disobedience by a person of a summons or a lawful order under the Ordinance. The first point to emphasise is that it must be wilful, that is to say, that the failure to obey must be deliberate.

It is the duty of the committee to convene the annual general meeting as soon as the audit report is received (Rule 23). That report may contain some unpleasant references to the committee and they decide not to convene a meeting. It is not enough to prove that the meeting has not been held. It will be necessary to prove that the members took counsel together and decided not to convene the meeting. This example will show how difficult it is to prove that the neglect was wilful.

If a secretary refused to produce his books to a member of the staff for audit, in spite of written instructions to do so,

a case of wilful neglect could properly be made out, but the committee would suspend the secretary under Rule 59 in any event.

A person who failed to obey a summons of a liquidator under Section 42 (2) would be dealt with not under this section but under the ordinary law as in a civil court.

MODEL CO-OPERATIVE SOCIETIES RULES

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CITATION

1. These rules may be cited as the Co-operative Societies Rules, 19

REGISTER OF SOCIETIES

2. The Registrar shall keep or cause to be kept at his office a register to be called "the Register of Societies" wherein shall be entered particulars relating to the registration of societies and their bylaws.

3. All original entries in the Register of Societies shall be made by, or under the direction of, the Registrar and shall be signed by him.

4. Every alteration, interlineation or erasure in the Register of Societies shall be initialled by the Registrar.

5. The Register of Societies shall be open to inspection by the public at all reasonable times and free of charge.

THESE rules are made in virtue of Section 51 of the Ordinance. They are, of course, permissive and not mandatory in character and can be modified to suit local conditions. The powers given in the Model are to ensure safeguards against mismanagement in the early stages of co-operative development. The rules are made "for the purpose of carrying out or giving effect to the principles of this Ordinance" (see Section 51). It will be seen that they are numerous, and in some instances detailed. It will also be seen that they contain matter which in some territories is often included in the bylaws of societies. This has been done purposely with a view to simplification of the bylaws in order that they may be mainly confined to matters affecting the operations of each society. The question of model bylaws will be discussed under Rules 69 and 70, which deal with bylaws, and at this stage it may be pointed out that whereas procedure at general meetings, election of the committee and appointment of officers, etc. etc. should be learnt by the secretary and members of the committee as soon as possible, it is unlikely that the members, at least at the beginning, will learn easily about these matters. But it is important that members should know the society's objects, the purposes to which the funds may be applied, their liability and other

matters concerned with the operations of the society. This can be done by making the bylaws as simple as possible ond by not including in them matters which can be left to the rules.

In some African territories the language problem is so difficult that to translate a lengthy set of bylaws into the local vernaculars is a task which is often not worth the result, for the members will not be able in many cases to read them, and in most others to understand them, especially if they are too detailed.

There are, however, sometimes to be found one or two people in a village with a knowledge of English, who may be elected to the committee, and one of them may be appointed as secretary, and it will be the duty of the staff to explain to them those rules which are applicable. The members should learn all about the bylaws, and later on they will pick up a knowledge of those rules which affect the society in its ordinary operations.

The rules go into considerable detail in regard to the procedure at general or special meetings and meetings of the committee, and in regard to the appointment and duties of the secretary. It is at the general meeting that the committee gives an account of its actions to the members and the ordinary member has a right to make his voice heard. There must be order and a proper way of carrying out the business. This is provided for in the rules. Similarly, there must be order in committee meetings and a written record of the decisions taken. Rules 34–36 lay down the procedure at those meetings.

As for the secretary, it is essential that he should be a fit and proper person and that the method of his appointment and his tenure of office should be regularised. It is also essential that his duties should be set out in detail so that not only he and the members of the committee know what his duties are, but also the staff of the department. If, on inspection, it is found that the secretary is not carrying out his duties properly, a full report should be made to the committee and to the Registrar. If the duties were not set out in detail it would not be easy to deal with lazy and inefficient secretaries, but if, for example, a secretary is neglecting to keep separate all moneys belonging to the society, i.e. he is mixing his own money with the society's, this is a breach of Rule 61 (9), and the committee should be asked to get rid of him (Rule 56 (5)).

Members of the staff should instruct themselves thoroughly in the rules so that on inspection they may satisfy themselves that the rules are being followed by societies.

Rules 2–5.—The Register of Societies should contain the following details.

Area or district, serial number of application, number of applicants, name of registered society where applicant, name of society, date of certificate of registration, objects of the society, date of registration of bylaws, number of amendments of bylaws and date of registration of each, place of business of the society, area of operations, date of dissolution and reasons, and columns for remarks and for the signature of the Registrar. The register should normally be kept in a locked cupboard, but it must be made easily available to the public for inspection (Rule 5).

It is useful to have a separate file for each society's bylaws for amendments, as they occur, to be filed.

Under Section 3 of the Ordinance Assistant Registrars may be given "all or any" of the powers of the Registrar, and where Assistant Registrars are appointed to be in charge of certain areas, the files containing bylaws may be sent to those areas. The register should be kept in the Registrar's office.

Applications for Registration of Societies

6. (1) Every application for the registration of a society shall be submitted to the Registrar in the form prescribed by him.

(2) Three copies of the bylaws which the society proposes to adopt shall be submitted together with the application.

Registration

7. Where the Registrar decides to register a proposed society the society and its bylaws shall be registered in the Register of Societies.

8. Upon the registration of a society the Registrar shall forward to the society, free of charge:—

(*a*) a Certificate of Registration;

(*b*) a copy of the bylaws of the society as approved by him and certified under his hand as having been approved by him;

(*c*) a copy of the Ordinance and of the rules in English.

9. When the Registrar refuses to register a society or its bylaws he shall record in writing his reasons for doing so.

Rule 6.—It is convenient for applications for the registration of a society to be on a form issued by the co-operative department. The following is a suggested form, addressed to the Registrar:—

"We, the undersigned inhabitants of .... inform you that we propose to form a society under the name of .... and we apply for registration of the society under the Co-operative Ordinance.

2. The address of the society will be ....
3. The area of operations will be ....
4. The objects will be the following ....
5. We enclose three copies of the proposed bylaws duly signed.
6. Particulars of ourselves are shown in the schedule below—

Schedule

1. Name and surname.
2. Usual place of abode.
3. Occupation.
4. Age.
5. Where applicant is an agriculturist the estimated area of the land cultivated by him.
6. Number and kind of trees owned by him.
7. State if applicant owns the house in which he lives.

(*Signed*) ....
....

The information under 5, 6 and 7 is desirable in the case of village societies and the Registrar will know how many of the more important farmers in the village have decided to join the society. The Registrar will probably send the application to a member of the staff to report on it and the report should contain not only information about the applicants themselves and their financial condition but also about how the people in the village live, what are their crops and what are their economic needs. Information about the proposed secretary and the probable members of the committee is also useful. The bylaws should be in triplicate, to enable one copy to be kept by the Registrar at headquarters, one to be sent to the society (Rule (8) (*b*)) and one to be kept by the assistant registrar, if there is one, or by the co-operative inspector in charge of the area.

Rule 7.—See notes on Rules 2–5.

Rule 8.—The certificate of registration is a proof to the members and the public that the society has been registered.

It should be hung in a conspicuous place in the office of the society.

It may be in the following form:—

"Certificate of Registration.

(Section of the Co-operative Societies Ordinance, 19 .)

"Certificate of Registration, No.

"I herby certify that the society under the name of '. . . . .' and its bylaws have been duly registered by me in the Register of Societies in pursuance of the provisions of the Co-operative Societies Ordinance, 19 and of the Co-operative Societies Rules, 19 .

"Given under my hand at . . . .
this the . . . . day of . . . ., 19 .

Registrar of Co-operative Societies."

With the Certificate of Registration the Registrar will send a copy of the bylaws certified as having been approved by him. This copy, together with a copy of the Ordinance, rules and list of members should be kept available for inspection (Section 12).

Rule 9.—An appeal against the decision of the Registrar not to register is provided under Section 7 of the Ordinance. Members of the proposed society should know why the Registrar has refused to register in order that they may have grounds on which to base their appeal and, although neither the rules or the Ordinance lay it down that the Registrar shall communicate his reason for refusal to register to members of the proposed society, it is reasonable that he should do so.

Register of Members and Books and Accounts

10. Every registered society shall keep a Register to be called "the Register of Members" wherein shall be entered:—

(*a*) the name, address and occupation of each member and a statement of the shares, if any, held by him;

(*b*) the date on which each member's name was entered in the register;

(*c*) the date on which any member ceased to be a member; and

(*d*) the nominee, if any, appointed under Rule 18.

11. Every registered society shall keep such accounts and shall use such books as may from time to time be prescribed by the Registrar.

Rule 10.—This should be read together with Section 19 of the Ordinance (see comment under Section 19). The Register

of Members is also the share register and it is essential that the secretary in whose charge it is kept should see that it is up-to-date. It is equally essential that the co-operative staff shall see that the secretary does so.

Rule 11.—This rule is purposely very wide. It is not possible to prescribe by rule all the various kinds of books and accounts which societies of different types should keep and the power to prescribe is left to the Registrar.

In practice, the forms, account books, etc. etc. are usually prepared in the Registrar's office and printed either by the government printing office or by local printers.

Societies generally accept without question the books, and there may be no need for the Registrar to prescribe them.

As regards payment, the first set of books may be sent free to a nearby registered society, but future issues should be paid for out of the society's funds.

Membership

12. The election and admission of members to a registered society, other than original members, shall be in such manner and on such conditions as the bylaws shall prescribe.

13. A member may withdraw from a registered society by giving written notice to the secretary, but such withdrawal shall be without prejudice to Section 29 (1) of the Ordinance.

14. If a member acts in contravention of the rules or bylaws or acts in any way detrimental to the interests of the registered society such member may be expelled by a vote of two-thirds of the members present at a general meeting upon a charge communicated to him in writing by the committee not less than one week before the meeting. Such expulsion shall, however, be without prejudice to Section 29 (1) of the Ordinance.

15. Any member who loses any of the qualifications for membership prescribed by the Ordinance or the rules or the bylaws shall cease to be a member of the registered society and the committee shall cause his name to be struck off the Register of Members without prejudice to any liabilities of such person under Section 29 (1) of the Ordinance.

16. In the case of any registered society of limited liability holding deposits or loans from non-members, no member withdrawing, removed or expelled therefrom shall be entitled to a repayment of any money paid by him towards the purchase of shares.

17. No registered society shall fix any limit to the number of its members.

Rule 12.—The qualifications for membership are prescribed in Section 21 and a person may not be elected to membership

unless he is duly qualified under that section. Rule 69 (*e*) lays it down that the bylaws of each society shall provide for the qualifications for membership, the terms of admission of members and the mode of election.

Persons who may be legally minors are eligible for election provided they have attained the age of 18 years (Section 21 (*a*)).

A person may be elected to membership but he cannot exercise his rights as a member until he has complied with the terms of admission, i.e. he has paid the entrance fee, if any, or paid his contribution to the share capital as the bylaws may provide.

Rule 13.—There is nothing in the Ordinance or Rules to prevent a member who may be dissatisfied for any reason from resigning his membership, but his liability for the debts of the society as they existed on the date on which he ceased to be a member (Section 29 (1)) continues for two years from that date. The resignation must be in writing to the secretary, who should at once record the fact of the resignation in the register of members. The effective date will be that shown in the register.

Rule 14.—Calvert says: " . . . The principle of careful selection of members carries with it the right to expel in order that any one deteriorating in conduct or character and thereby prejudicing the society may be got rid of. . . ."

A man may be expelled from a social club, although it is more usual for him to resign when he knows that the question of his expulsion is under consideration.

The phrase, "acts in any way detrimental to the interests of the registered society," is very wide. If a member engages in acts contrary to the principles of the society; if, for example, he sets up as a moneylender, or if he is convicted of fraud in a criminal court, expulsion is a justifiable measure. The question is considered in general meeting and two-thirds of the members present must vote in favour of expulsion. Members may have to be reminded of their duty to vote one way or the other and, as a general rule, it is difficult to persuade members to attend a meeting where a case of expulsion is being considered, or to vote at the meeting. But the right to expel exists and may be used in accordance with this rule. The expelled member is liable under Section 29 (1).

Rule 15. If a member ceases to reside or occupy land within the area of a society's operations, he loses his qualifications and must therefore be struck off the register of members. Similarly, if as a railway employee he joins a society composed only of railway employees and he ceases to work on the railway, he must be struck off. The bylaws of societies composed of members of a trade or profession often provide that ex-members retiring from that trade or profession may continue to be members of the society.

Rule 16.—This applies to societies of limited liability which receive deposits or loans from non-members. The withdrawing or expelled member is not entitled as of right to the repayment of money paid by him as share capital. It is up to him to find some other member or prospective member to whom to sell his share or shares. If the society is flourishing he will find no difficulty. If it is not flourishing the share will not be worth much anyway. There is therefore little hardship in this rule. The liability under Section 29 (1) remains. Where a member withdraws from a society with unlimited liability and share capital, he is not entitled to repayment, but in view of the unlimited liability for two years (Section 29 (1) the society will usually repay his share unless it is very short of funds.

Rule 17.—The principle is that societies should be open to all with needs in common and it is through the observance of that and other principles that privileges are given to societies in the Ordinance. "The membership must be democratic. It cannot take in a certain group and leave another group out, provided they have the same needs in common. No bona fide applicant of good character resident within the area of operations should be refused admission. . . ." (Calvert, quoting observations of the American Commission on Co-operation and Smith Gordon on Co-operation for Farmers.) Village credit societies of unlimited liability should not be allowed to become so large that the members do not know each other individually. If there is any danger of this occurring it is better for a second society to be started in the area or to divide the area with a society in each part of it. One or more groups of members may split away from the parent society, with permission, and it can usually be arranged for some portion of the reserve fund of the parent society to be transferred with the members to the

new society. It may be difficult to persuade the general meeting to agree to this, for no one likes parting with funds which he has acquired, and patient explanation will be required by the co-operative staff.

Calvert says: " . . . The question is of importance in the case of credit societies where mutual personal knowledge is essential; but large membership is not generally regarded as a drawback in the societies such as stores and supply societies. . . ."

Nominees

18. (1) Every appointment of a nominee by any member of a registered society for the purposes of Section 17 of the Ordinance shall be made in writing signed by the member in the presence of two attesting witnesses.

(2) No member of a registered society with share capital shall be entitled to appoint more than one nominee unless that member holds more than one share.

(3) In any case, where more than one nominee is appointed by any member the number of shares to be transferred or the exact proportion of the amount available that is to be transferred to each of these nominees shall be specified at the time of the appointment.

(4) Every appointment of a nominee shall be recorded in the Register of Members.

(5) For the purpose of a transfer to a nominee, the value of any share or interest shall be represented by the sum actually paid for that share or interest by the member holding it unless the bylaws of the registered society otherwise provide.

(6) Where any money is paid to a nominee who is a minor, a receipt given either by the minor or by his guardian shall be sufficient discharge to the registered society.

Rule 18.—This rule should be read together with Section 17 (see comment on Section 17). Special forms for the appointment of nominees are usually provided by the Registrar and these forms should be kept in a separate file in the society's office. A record should be made in the register of members. Where a member holds, say, five shares, he may appoint five nominees, one to each share, but this is not usually done. Bylaws do not generally provide for any sum other than the purchase price paid by the member for the share. Since the share list is in theory always open, i.e. there is no limit to membership, the value should not exceed the original purchase price. In addition, dividends on share capital are limited (Rule 19), a fact which does not tend to lead people to buy

shares except as a qualification for membership, or in order to support the society financially. There is no specific power of revocation under the rules, but it may be presumed that where the right to appoint a nominee is given, a member may ask the secretary to return his original form and send in another form appointing some other nominee.

Calvert says: " . . . The society is bound to follow the nominators' expressed wish; it must never become party to any family arrangements in regard to division of the property. . . ."

Where the nominee is legally a minor (the young child of the deceased member) his receipt is made legal by sub-rule (6).

Division of Profits

19. (1) Unless otherwise authorised by the Governor under the proviso to Section 34, subsection (1) of the Ordinance no dividend or payment on account of profits shall be made by a society registered with unlimited liability until the reserve fund has reached a proportion of not less than one-tenth of the society's total liabilities.

(2) No registered society shall pay a dividend if the rate of interest on loans granted by it to its members exceeds 10 per cent. per annum.*

(3) No registered society shall pay a dividend on share capital exceeding 5 per cent. (5%)* per annum on the capital actually paid up.

(4) A bonus based on wages or on the value of the products of a member, or a bonus or rebate on patronage calculated in proportion to the amount of the business done by each member with the registered society may be distributed periodically to the members from surplus funds after the deduction of all expenditure and after making provision for bad and doubtful debts and making allocation to the reserve fund.

For a definition of "profits," see comment under Section 34, which should be read together with this rule. The first sub-rule provides that no dividend shall be paid on share capital and no payment shall be made on account of profits in a society with unlimited liability until the reserve fund equals one-tenth of the society's total liabilities. The principal aim of such a society must be to build up a strong reserve fund, and dividends and any other form of distribution of profits are forbidden until that aim is reached. The larger the reserve fund the less likelihood there is that the members will be called upon to pay up on account of their unlimited liability if the society's registration is cancelled. The creation of a strong reserve

* The percentage to be determined locally according to the circumstances prevailing.

fund is not only an insurance against calls on the unlimited liability; it also provides funds for the society and in due course enables the rate of interest on loans to members to be reduced.

Calvert says: " . . . In the end it is less a matter of principle than of practical expediency, and experience inclines to favour the accumulation of a reserve in the earlier years followed by a reduction in interest when the fund is sufficient to protect the unlimited liability and to secure financial stability. . . ."

Here is the answer to those members who complain that they are getting no profits in cash out of the society.

Sub-rule (2) covers all societies. So long as all members have to pay a high rate of interest on their loans to cover expenses, including the contribution to the reserve fund, the payment of a dividend would mean additional expenditure and delay the time when reduction of interest rates could take place.

Sub-rule (3) provides against "dividend hunting." In some countries members joined societies in the hope of large dividends on share capital. Those who had many shares hoped for a good dividend and they did not consider the other members who, through higher interest rates, had to pay for that dividend. Co-operation does not mean self-help only, it means mutual help, too. A reasonable return on capital is not denied. For this reason the dividend is limited to 5 per cent. or such other rate as may seem reasonable in the territory concerned.

Sub-rule (4) deals with the bonus (see Section 2 definitions). It describes how and when this bonus may be distributed. Although payment on account of profits (sub-rule (1)) may be made in societies of unlimited liability, subject to certain conditions, only a bonus is payable on business done. Such a ociety may order on behalf of its members so many bags of fertiliser or seed maize and may charge them so much per bag either for cash or credit. When the accounts are finally made up it may be found that the charge was too high and it should have been 6d. per bag less. That sum of 6d. per bag may be paid back to each member in accordance with the number of bags he took from the society. When a member hands in so many bags of maize to the society to sell, it is the usual practice for an advance of about two-thirds of the market price to be paid to him by the society. When the sale takes place the

final accounts are made up and any balance is distributed among the members who delivered the maize in accordance with the number of bags delivered by each. No bonus is payable on account of loans obtained from the society, even though this is "business done" with the society.

The above remarks apply to societies with unlimited liability where the distribution of profit is covered by sub-rule (1).

In other societies the bonus on business done is calculated in the same manner, and it may be distributed periodically, although it is usual and more convenient for the rebate on patronage in stores societies to be distributed at the end of the financial year after the accounts have been audited and the necessary provisions have been made for bad and doubtful debts and for the reserve fund.

In societies which market more than one kind of crop, the accounts are usually made up after each crop, a portion is deducted for expenses, bad and doubtful debts and the reserve fund, and the balance is distributed as a bonus on business done.

Maximum Liability

20. (1) Every registered society shall, from time to time, fix at a general meeting the maximum liability it may incur in loans or deposits whether from members or non-members.

(2) The maximum so fixed shall be subject to the sanction of the Registrar, who may at any time reduce it. No registered society shall receive loans or deposits which will make its liability exceed the limit sanctioned by the Registrar.

This rule should be read with Section 31. It imposes on the members in general meeting the duty to decide what their liability will be. The general meeting is the governing body of the society and the decision on the limit up to which a society should borrow is left to the meeting and not to the committee. If members wish to reduce or increase the maximum liability, a resolution must be passed at another general meeting. The staff should see that the necessary resolution has been passed, that it has received the sanction of the Registrar, that the committee know what the limit is and, more important, keep within that limit.

The decision of the general meeting must receive the sanction of the Registrar. He may reduce the amount when he thinks that the society have decided to borrow in excess of their real needs, but he may not increase it even though he may know

that the sum fixed is insufficient. He will probably point out to the society that they will have to borrow more and in due course, when the need arises, a special general meeting to increase the liability will have to be called. It would, of course, be wrong for the Registrar to insist on a society borrowing more than they think that they should borrow.

General Meeting

21. The supreme authority in a registered society shall be vested in the general meeting of members at which every member has a right to attend and vote on all questions. Subject to the provisions of Sections 24 and 25 of the Ordinance, each member shall have one vote only which shall be exercised in person and not by proxy.

22. The first meeting of members shall have the same powers as are given to the annual general meeting, and shall be held immediately or not later than one month after the receipt of the certificate of registration of the society.

Annual General Meeting

23. The annual general meeting of members shall be convened by the committee as soon as the report on the audit of the accounts of the registered society by the Registrar or person authorised by him is received by the committee. At least eight (8) days' notice shall be given before any such general meeting is held:

Provided that the Registrar may at any time after the audit of the accounts has been completed convene the annual general meeting which shall proceed as if it had been convened by the committee.

24. The functions of the annual general meeting shall be:—

(*a*) to confirm the minutes of the previous annual meeting and of any intervening special general meeting;

(*b*) to consider the reports of the committee and the balance sheet together with the report on the audit of the accounts of the registered society for the previous year as prepared by the Registrar or the person authorised by him;

(*c*) to approve the accounts or if the accounts are not approved to cause the secretary to notify the Registrar who shall consider the matter and make his decision thereon, and such decision as to the correctness of the accounts shall be final and conclusive;

(*d*) to hear and decide upon any complaints brought by members aggrieved by a decision of the committee: Provided that notice of such complaints to be brought before the meeting has been given to the secretary at least two days prior to the meeting; and

(*e*) to transact any other general business of the registered society.

Special General Meeting

25. A special general meeting of members may be convened at any time by the committee; and on receipt of a demand stating the

object of the proposed meeting signed by not less than one-fifth of the members of the registered society, if such society is composed of less than one hundred members, or by twenty-five members if such society consists of more than one hundred members, it shall be the duty of the chairman of the committee to convene such a meeting giving eight (8) days' notice. If the chairman of the committee fails to convene a meeting within fourteen (14) days from the receipt of a demand as aforesaid the members applying for such a meeting will have the right to convene the meeting by notice which must contain the object of the proposed meeting and a statement to the effect that the meeting is convened on the failure of the chairman of the committee to convene the meeting demanded:

Provided that the Registrar or a person authorised by him may at any time summon a special general meeting of the registered society in such manner and at such time and place as he may direct. He may also direct what matters shall be discussed at the meeting. Such meeting shall have all the powers of a meeting called according to the rules.

Quorum at General Meetings

26. (1) When a registered society consists of not more than forty members one-half of the number of the members or ten members, whichever is the less, shall form a quorum for the purposes of the annual or a special general meeting, and when a registered society consists of more than forty members one-fourth of the total number of the members of such society shall form a quorum for the purposes of the annual or a special general meeting:

Provided that when any meeting is summoned by the Registrar any members present at such meeting shall be deemed to form a quorum.

(2) If within one hour after the time fixed for any meeting other than a meeting convened by the Registrar the members present are not sufficient to form a quorum such meeting shall be considered as dissolved if convened on the demand of members; in all other cases it shall stand adjourned to the same day in the next week at the same time and place and a notice to that effect shall be posted by the secretary within twenty-four (24) hours, and if at the adjourned meeting a quorum is not present within one hour from the time appointed for the meeting the members present shall form a quorum.

Chairman of General Meetings

27. (1) The chairman of the committee or in his absence any other person elected by a majority of those present shall preside at the annual or special general meeting: provided that the Registrar or a person appointed by him shall preside at any meeting convened by himself or on his demand.

(2) The secretary or in his absence any other person nominated in writing by the chairman shall act as secretary at the meeting. The Chairman, if necessary, may nominate other officers to assist at the meeting.

(3) The chairman may by the decision of the meeting adjourn the meeting from time to time and from place to place but no business shall be transacted at any meeting so adjourned other than the business left unfinished at the meeting from which the adjournment took place.

(4) The chairman shall have the right to order the closure of a discussion and put the matter to the vote.

Voting at General Meetings

28. Any question submitted to the decision of the members present at a meeting, unless otherwise dealt with in the rules, shall be decided by a majority of votes.

29. (1) At any meeting a resolution put to the vote shall be decided on a show of hands unless voting by call of names or a ballot is demanded by at least five of the members present before the declaration of the result of the show of hands, and in such case voting by call of names or a ballot shall be taken as the case may be.

(2) The chairman shall have an ordinary vote and in case of an equality of votes shall be entitled to a casting vote. In the case of a meeting convened by the Registrar and presided over by him or his representative, he or his representative shall not be entitled to vote except on an equality of votes, in which case they shall have a casting vote.

(3) In respect of every resolution put to the vote the chairman shall declare whether it has been carried or lost, and whether on a show of hands or unanimously or by a particular majority, and an entry to that effect in the minute book shall be conclusive evidence of anything therein contained.

Minutes of General Meetings

30. Minutes of the meetings shall be entered in the minute book and signed by the chairman and secretary before the dissolution or adjournment of the meeting and shall contain:—

(*a*) the number and names of the members present at the meeting and the name of the chairman or of the person who presided at the meeting;

(*b*) the time fixed for the meeting and the time the meeting commenced;

(*c*) the total number of members on the date on which the meeting was held; and

(*d*) all resolutions passed or decisions made at the meeting.

Rule 21.—The genêral meeting is the "grand inquest" of the society. All members should attend and exercise their votes (one only for each member except that the chairman has a casting vote) (Section 24 and Rule 29 (2)). Proxy voting is not allowed except by societies voting at meetings of secondary institutions of which they are members (Section 25).

Members are often disinclined to attend general meetings, especially when the affairs of the society are going on well, and the co-operative staff should impress upon them that they should attend, as otherwise they cannot know what is going on.

Strickland, in his *Rural Finance and Co-operation*, says: " . . . The general meeting of members is the most essential feature of any co-operative society, for if a society is not controlled by a meeting of members, it is not co-operative. . . . Members in general meeting should have the right and the duty of deciding who shall be admitted to the society, who shall manage its affairs and what business it shall undertake; and an annual examination of its business should be made by the general meeting. And these are not only rights but duties. If the meeting will not perform these duties, the work of the society is brought to a standstill. . . ."

The staff of the co-operative department frequently attend general meetings and it is important that they should not, directly or indirectly, take charge. They should advise the chairman how to proceed, but they must resist the temptation to do what the chairman should do.

Rule 22.—The first general meeting of the society takes place after registration. There has usually been an informal meeting before the application for registration was sent to the Registrar, at which the objects and bylaws were discussed, but it is not an official meeting of the society. At this first general meeting the committee will be elected and the meeting will be convened for this purpose under Rule 31 by the Registrar. The maximum liability will also be approved (Rule 20). The bylaws will already have been approved by the Registrar and there is no need for them to be formally approved. This meeting will probably be attended by one of the staff, who should explain the objects and the bylaws. Examples of other nearby societies, if any, may be given.

Rule 23.—The annual general meeting must be called by the committee immediately after the audit report has been received. At least 8 days' notice is required so that all members may know the date, time and place and arrange to attend.

The Registrar has power to convene the meeting if the committee fail to do so. It may happen that the audit report criticises their actions and they may not wish to disclose this

to the members. Or they may be slack. As the society's work cannot be carried on without the general meeting, the Registrar calls it and usually sends one of the staff to attend it or to preside. The provisos to Rules 25 and 26 (1) and the proviso to Rule 27 (1) should be noted in this connection. No notice is required. Any members present form a quorum; the agenda is decided upon by the Registrar and he may appoint one of the staff to preside at the meeting, i.e. act as chairman. These powers will only be used in exceptional cases and especially when the committee are known to be determined not to carry out their duty, or party feelings are high and there may be disturbances at a meeting.

Rule 24.—Sub-rules (*a*) to (*d*) deal with the matters which must be dealt with or considered at the annual general meeting, and the chairman and secretary should know this rule thoroughly. It will be seen that prior notice of complaints must be given and it is only right that the committee should be given notice so that they can prepare their reply. Notice of business under (*c*) is not required, although if the committee intend to put forward any resolutions, such as amendments to bylaws, alterations in the maximum liability, etc., it is usual for these resolutions to be included in the notice. Members should be told beforehand what they are being asked to vote on. Difficulties may arise over resolutions put by members under sub-rule (*e*) and the secretary should ask members beforehand whether they intend to bring up any matters in order that the committee may know and also that he may help the members in preparing the resolutions. The chairman should be advised to al ow members to go on talking even though their remarks may not be to the point. If a member is told to stop, he feels a grievance and it is only gradually that members will learn to keep to the point.

Rule 25.—This rule prescribes how a special general meeting may be called, and the procedure in case the chairman of the committee fails to call it on request. Nothing may be discussed at these meetings except what is contained in the notice. The power of the Registrar to convene a special general meeting is a wide one. He may summon it at any time with or without notice, although it is unusual for notice not to be given. He may also decide the agenda. The Registrar will not normally

use this power unless there is something seriously wrong with the society's management or with its affairs and when the usual procedure for summoning meetings has broken down.

But there may be occasions when he has attended an informal meeting of members to discuss some question of policy, or he has sent a member of the staff to do so (the latter must have the required authorisation with him) and the members agree to a certain course of action. On these occasions he may say: "Let this meeting now be a special general meeting under Rule 25 and let us now vote on the following resolution. . . ." A record of the proceedings is then entered in the minute book and the meeting is recorded as a special general meeting.

Rule 26.—The object of fixing a quorum is to ensure that a certain number of members attend a meeting. The number is shown in sub-rule (1). If no quorum were to be fixed, a few members would be able to make grave decisions affecting the future of the society. Hence the need for a quorum. Sub-rule (2) provides for the procedure when there is no quorum at the original meeting. Where a quorum is not obtained at a meeting asked for by the members (Rule 25) no further meeting is allowed. The members must start again under Rule 25. In other cases a second meeting is allowed under certain conditions, and after one hour's wait any members then present form a quorum.

Rule 27.—It is a matter of practical convenience for the chairman of the committee to take the chair at general meetings. He has had practice in taking the chair in committee, and through his knowledge of the society's affairs he is often able to satisfy members at once without lengthy debate. But where a meeting is called by the Registrar, he or his representative takes the chair. Such meetings are not frequent, and they are usually called when there has been a breakdown somewhere or a decision is required. For that reason the chairman should be an independent person not mixed up in the society's affairs.

The secretary's duty is to write the minutes, and he may have to advise the chairman on the rules, bylaws or questions of procedure. But he must not control the meeting. Meetings may be adjourned, but this should rarely be necessary. A record of the time of adjournment should be entered by the

secretary in the minute book, and at the adjourned meeting only the business left over may be discussed. Members are not allowed to go back to decisions already taken.

The chairman decides when the talk should stop and a vote should be taken. Once he has put the question to the vote he should not allow further talk on that question. The chairman is usually guided by the attitude of the members. When they begin to look bored or interrupt speakers and generally show signs of having heard enough talk, he should order the vote to be taken.

Rule 28.—The voting is by majority, and as each member has one vote only, this means that the will of the majority prevails. For this reason as many members as possible should attend general meetings and vote. If only a few attend, the result may be that the will of the few members who take the trouble to attend may prevail. The method of voting is by show of hands, but five members may demand a roll call or a vote in writing (ballot). This demand can only be made before the result of the show of hands is declared and on each resolution. It cannot be a general demand for all resolutions at the meeting.

The chairman is entitled to a vote in his capacity as a member. If the voting is equal, he has a second or casting vote which he must use either for or against the resolution (see comment under Section 24).

The Registrar or his representative acting as chairman at a general meeting has a casting vote only.

It is necessary for a decision one way or the other to be arrived at and for that reason a casting vote is given to the chairman of the meeting.

The chairman must declare to the members whether a resolution has been approved or not and he must declare the majority for or against. It is the duty of the secretary to record the result in the minute book and this record will be confirmed at the next general meeting (Rule 24 (*a*)).

Rule 30.—It is the duty of the secretary to record in the minute book all proceedings at general meetings (see Rule 61) and the record in the minute book must be signed by him and by the chairman before the meeting is over. This may result in rather rough minutes, but the important thing is to have

the record made at the time of the meeting, and not days afterwards when the facts are not easily remembered or when the secretary may write up the record as he likes. Names of members present are important and so are times.

It is not always easy to record the words of the resolutions, as they are often amended during discussion, but the secretary should try to make sure that he records the chairman's words when he puts a resolution to the vote.

Election of Committee

31. (1) The committee shall be elected at a general meeting of the registered society to be held once in every three years convened for the purpose by the Registrar, and its members shall hold office until the election of a new committee and they shall be eligible for re-election:

Provided that a special general meeting convened for the purpose by or on the demand of the Registrar may remove the committee or any members thereof before the expiration of their period of office by majority of three-fourths of the members present, who shall procee at the same meeting to the election of others in their stead who shall hold office until the election of a new committee by the next general meeting convened for this purpose by the Registrar.

(2) The committee shall consist of five members and three shall constitute a quorum.

Chairman of Committee

32. The committee shall elect its own chairman, who shall have an ordinary vote and on an equality of votes shall be entitled to a casting vote. In the temporary absence of the chairman, the committee shall elect one of its members to perform his duties.

Duties of Committee

33. (1) The committee shall represent the registered society before all competent public authorities and in all dealings and transactions with third persons, with power to institute or defend suits brought in the name of or against the society, and in general it shall carry out such duties in the management of the affairs of the registered society as have not been specially assigned by the rules or the bylaws to general meetings or to any other officer of the society.

(2) The committee shall always keep a copy of the latest annual balance sheet of the registered society together with the report referred to in Rule 23, hung in a conspicuous place at the registered office of the society.

Meetings of Committee

34. The committee shall meet as often as the business of the registered society may require and in any case not less frequently than once a month. Meetings of the committee shall be summoned by the secretary in writing.

Procedure at Meetings of Committee

35. At each committee meeting the secretary shall:—

(*a*) read the minutes of the preceding meeting;

(*b*) produce the cash book, detail the entries of receipts and payments made therein since the last meeting and with the treasurer produce the cash in their possession for verification by the committee with the cash book;

(*c*) produce a statement showing the loans due and unpaid, for determination by the committee as to the action to be taken in each case;

(*d*) produce applications for loans, if any, for determination by the committee in accordance with the priority of receipt; and

(*e*) submit any other business for consideration by the committee.

Minutes of Meetings of Committee

36. Minutes of committee meetings shall be recorded forthwith by the secretary in the minute book and shall be signed by the chairman or other presiding member and by the secretary and shall contain the following particulars:—

(*a*) the names of the members present and the date of the meeting;

(*b*) the name of the chairman or other presiding member; and

(*c*) a short statement of all matter discussed and decisions made and a record as to whether each decision was made unanimously or by a majority.

Failure to Attend Meetings of Committee

37. Any member of the committee who, without due excuse approved by the committee, fails to attend at three consecutive meetings of the committee shall be deemed to have vacated his office which shall thereupon be filled as provided by rule 38.

Vacancies on Committee

38. (1) Vacancies occurring on the committee shall be filled within eight (8) days by the election of substitutes elected by the remaining members of the committee:

Provided that when such election does not take place the Registrar may appoint the required substitutes.

(2) Any substitutes elected or appointed under paragraph (1) of this rule shall hold office until the expiration of office of the committee.

Borrowing Powers

39. The committee may borrow money on behalf of the registered society to an amount not exceeding such total amount as may have been fixed in accordance with rule 20.

Banking Account

40. The committee may, subject to the approval of the Registrar, open a banking account. All cheques shall be signed by two members of the committee and the secretary:

Provided that with the authority in writing of the Registrar previously obtained, cheques may be signed by one member of the committee and the secretary.

Employees

41. (1) The committee may:—

(a) appoint such clerks or employees as it considers necessary; and

(b) fix the salary, wages or remuneration of every such clerk or employee.

(2) Every clerk or employee appointed under this rule shall hold office during the pleasure of the committee.

Rule 31.—Strickland, in his *Rural Finance and Co-operation*, referring to the committee of a co-operative society, says: " . . . the main policy of the society, with the limits of the registered constitution is laid down by the general meeting; the execution of that policy and the general management of the society's affairs are the task of the committee . . . they are, however, not expected to remain inactive in their management of the society's business until they receive orders from the general meeting as to the course which they should follow; they are to conduct the daily business of their own accord and are to take the initiative in all cases in which the law or the society's constitution do not require them to obtain an order from the general meeting. . . ."

The members of the committee are expected to use the care and diligence of ordinary men of business, and it is useful for the bylaws to contain a clause to that effect in order that they may be reminded of their duties, which are more particularly detailed in Rule 33.

In these model rules it is provided that an election shall take place once in every three years at a special meeting convened by the Registrar. In most co-operative societies in most countries there is an election every year. But there is a danger that one of two things may happen. Either the committee will all unanimously be re-elected, as a year is a very short time to hold office, or an entirely new committee will be elected which knows nothing about the society's affairs. Just as it is beginning to take charge properly, the time for a new election comes round again. The danger in the first case

is that if the same members are re-elected more than once, they begin to think they have a right to be on the committee. The other members do not want to make trouble, so they continue to be re-elected.

As for the second, a new committee every year usually results, when societies are in the first stages, in nothing much being done. If a three-year period is considered too long, a two-year period may be provided for in the rules, or retirement by rotation: say, two the first year, two the second and one the third, and so on. This is a little hard for people to understand and complicated to administer.

It will be seen that the Registrar may call a special meeting to ask the members to remove all or any of the committee and at that meeting to elect others in their place. Rule 65 provides for a quicker and more certain way to get rid of members of the committee who are not doing their work properly.

The number of members of the committee should not be an even number as the chairman may be called upon too often to use his casting vote. Three is too small, five is a convenient size, but there is no objection to seven. In that event the quorum should be five.

Rule 32.—The committee elects its own chairman, who is also chairman at general meetings (Rule 27 (1)). In his absence another member is elected for that particular meeting, a fact which should be recorded in the minute book. It is not desirable for the secretary to act as chairman, even though he may be a member of the society.

Rule 33.—Calvert says: " . . . Duties of committee:—

(1) To observe in all their transactions the Ordinance rules and bylaws;

(2) to maintain true accounts of money received and expended; and

(3) accounts of the assets and liabilities of the society;

(4) to facilitate the inspection of books by those authorised to see them;

(5) to prepare and present to the general meeting a profit and loss account annually;

(6) in credit societies to watch that loans are applied to the purpose approved;

(7) to maintain a register of members up to date;

(8) to call a general meeting on the demand of members prescribed for this purpose in the bylaws or rules.

The committee is bound to observe the limitations imposed by the resolutions of the general meeting as to the extent of their authority to represent the society. . . ."

They must also elect a chairman and appoint a secretary and a treasurer, convene the annual general meeting, consider any applications for loans, take steps for the recovery of overdue loans, send to the Registrar the yearly balance sheet and profit and loss account, and prepare a report for the annual general meeting. They must also keep copies of the latest balance sheet and report in a conspicuous place in the office. Their powers, as distinct from duties, are set out in the rules and in the bylaws. They are also empowered from time to time by resolutions at general meetings to do various things which the members agree should be done. The committee manages the society, but in accordance with the expressed wish of the members. There may be occasions when the committee have to decide on certain matters and there is no time to consult the members. The decision should be submitted as soon as possible to a general meeting for confirmation.

Rule 34.—Unless a monthly or possibly a fortnightly meeting is prescribed by the rules, there is a danger that regular meetings will not take place. It is most important that there should be regular meetings, even if there is no particular question on which a decision is required, as without them the secretary may take upon himself too much power, or two or three members may meet casually and take decisions.

The reason why meetings should be summoned in writing is to make sure that all the members of the committee are properly notified when a meeting is to be held.

Rule 35.—It is essential that there should be a regular routine at committee meetings and that the secretary and members should know what the routine is.

After the reading of the minutes of the last meeting (they are signed at the end of each meeting (Rule 36)), the secretary reads out the entries in the cash book and he and the treasurer produce the cash. This is a check on both and should prevent them from mixing up their own money with the society's

money, an offence which the staff must always be looking for. Loans due and unpaid will then be examined and decisions taken on what should be done. Then applications for loans will be considered. They should be taken in order of receipt by the secretary. The application of personal friends or of the members of the committee should not be taken first. Finally, other business will be taken. The secretary may ask for directions on this and that, complaints from members may have been received, circulars from the Registrar will be read and discussed. The "other business" at a committee meeting should be usually quite lengthy if the society is really alive.

Rule 36.—The minute book is a most important record. It should contain all the decisions taken at general meetings and at committee meetings, and the whole history of a society can be seen from a careful study of its minute book, if the latter is properly kept. It is important that it should be up to date, so the rule provides that it should be written up and signed by the chairman and secretary at the end of every meeting. There is no need to record the discussions. The questions discussed and the decisions made are the important points, not the talk.

A member of the committee who disagrees with the opinion of the majority may ask to have the fact of his contrary vote recorded, and the secretary should so so.

Rule 37.—The committee should meet regularly and its members should attend regularly. If they do not take the trouble to turn up, they are not fit and proper persons to take charge of a society. In order to make this quite clear, the rule provides that if a member fails to attend three meetings consecutively, then he automatically ceases to be a member of the committee. If any member has to go away on his own affairs for some time, or if he is sick, he can ask the committee for leave of absence during that time. The rule is directed against the lazy member or the one who is so occupied with other affairs that he cannot spare the time to attend and is thus not a fit person to be a member of the committee.

Rule 38.—The committee elects other members to fill vacancies. This is for convenience, as it is hardly worth while calling a special general meeting to elect a person to fill a vacancy. It is wise for the committee to elect from among

those who, if voting took place at the last general meeting, obtained a reasonable number of votes at that meeting. Such a choice will prevent criticism.

If the committee fail to do their duty in this respect, the Registrar may appoint. He, too, will usually choose one of the unsuccessful candidates at the last election.

Rule 39.—This should be read together with Rule 20, which lays down that the general meeting shall decide from time to time how much the society may borrow. This rule empowers the committee to make arrangements to borrow up to that amount in the form of deposits or loans from both members and non-members.

Rule 40.—The committee is empowered to open a banking account, which is usually in the name of the society as registered. The proviso covers cases where the members of the committee do not live in the same town or village. Generally one member will be living in the place where the office is situated. Wherever possible two members and the secretary should sign cheques.

Rule 41.—The committee is given power to appoint the staff of the society. If there were no rule to this effect it might be argued that the general meeting should do so. To appoint by the general meeting would result in delays and arguments over pay, etc., which are best handled by the committee.

RULES 42–50 APPLICABLE TO CREDIT SOCIETIES

Application for a Loan

42. Members who desire to obtain a loan shall submit an application to the committee stating the amount and the purpose for which the loan is required, the term for which it is asked, whether it is desired to repay it by instalments, and the names of the proposed sureties or any other security which is offered.

Sanction of Loan

43. (1) The committee shall consider at a meeting every application for a loan and if the committee is satisfied with the trustworthiness of the applicant, the sufficiency of the security offered and the prospects of advantage to the borrower, in the way of increased production or economy or otherwise, it may sanction the loan.

(2) No person other than members of the committee and the secretary and the Registrar and his staff shall be present at any meeting of the

committee when an application for a loan is under consideration. A member of the committee who applies for a loan or who is proposed as surety for a loan must withdraw while the relevant application is being discussed. If there is a difference of opinion concerning the granting of a loan, the voting shall be taken by ballot. The proceedings with regard to loans at committee meetings shall be kept secret, and any member of the committee or officer of the registered society infringing this rule shall be liable to immediate expulsion or dismissal.

Security for Loans

44. Loans, when approved by the committee, shall be granted to members who are able to obtain two sureties approved by the committee, or who can give other security to the satisfaction of the committee.

Purposes of Loans

45. (1) No loan shall be made except for a purpose to be approved in each case by the committee.

(2) All loans made shall be applied by the borrowing members to such purpose as the committee has approved.

Documents Relating to Loans

46. When a loan is sanctioned by the committee a notice shall be sent to the borrower to that effect, and, before the amount is advanced, the borrower and his sureties shall execute an instrument in writing setting out the terms of repayment of the loan and containing such other terms and conditions as the committee may consider necessary.

Restrictions on Loans to Defaulters

47. Where a member:—

(*a*) is in default in the payment of a loan or of an instalment of a loan; and

(*b*) does not satisfy the committee that such default is due to a good cause,

such member shall not be entitled to receive another loan from the registered society.

Extensions of Loans

48. If, by reason of sickness or some other cause, a member finds that he will be unable to discharge his obligations to the registered society and notifies the secretary in writing before a loan is due the committee may extend the time fixed for payment on such conditions as it thinks fit.

Misapplication of Loan

49. Where the committee is satisfied that a member of the registered society who has obtained a loan has applied the proceeds thereof to a purpose other than the purpose which is stated in the application therefor under rule 43, the committee may, by notice in writing to

the debtor, demand payment of the loan before the agreed date of payment.

RECOVERY OF LOANS

50. Where:—

(a) a loan or an instalment of a loan has not been paid on the date on which it became due; and

(b) no extension for the payment thereof has been given to the debtor by the committee under rule 48,

the committee shall take steps for the recovery of the same by referring the matter to the Registrar as prescribed in Section 49 of the Ordinance.

These rules are applicable to credit societies and to any societies which make loans to their members. Payments to members on account of produce delivered by the society for sale by the society together with the produce of other members are not loans. They should be treated as advances against produce delivered. Payment up to not more than two-thirds of the current market price may be made on delivery, by the member, of the produce in the society's store.

If the society has lent the member money to enable him to cultivate the produce in question, the society has a first charge on that produce under Section 14 of the Ordinance, and under Section 13 a marketing society may contract with its members to deliver produce. The difference between a loan proper and an advance against produce should be kept in mind.

Rule 42.—Forms of applications for loans are usually supplied from the Registrar's office, for the sake of uniformity and to enable the staff to see that the proper routine is being carried out. These forms should contain all the details set out in the rule and in addition columns showing date received, date considered by the committee, and decision taken and reasons for decision if the application is refused. All applications for loans should be filed in a separate file by the secretary. It is important that the purpose for which the loan is required should be given in some detail. It is not enough to put "cultivation expenses" or "agricultural work." The kind of crop to be grown and the area of land to be cultivated should be given. Then if it is found later that the crop in question is not being grown, the committee may take action under Rule 45 (2).

Rule 43.—(1) It is the duty of the committee to consider every application for a loan, and a record of the decision should be made in the minute book and on the form of application referred to in the comment under Rule 42. The responsibility for sanction or refusal lies with the committee, but any member aggrieved by the decision may make a complaint to the general meeting under Rule 24 (*d*). The need to record reasons for refusing an application is therefore apparent. In making their decision the committee should be guided by the character of the applicant, whether he is known as an honest man who is likely to repay at the fixed time, the security, whether the sureties are sound and in a position to repay if called upon to do so and whether the loan will help the borrower in his ordinary work. The committee should, for example, refuse a loan asked for to buy land when they know that the applicant has sufficient land already to keep him fully occupied. It is not an easy matter for committees to refuse loans. There are always plenty of good reasons why people should borrow money. And it is one of the most important duties of the co-operative staff to impress on committees the need to examine each application for a loan in the light of Rule 43 (1).

(2) Careless talk about discussions over applications for loans results in trouble in the society and leads to its collapse. The fact that member "A" has applied for a loan and has been refused should not be known unless the member in question himself tells the story to his friends. It is unlikely that he will do so, as no one is likely to advertise the fact that his credit is not good enough for a loan. It must be impressed on the committee and the secretary that secrecy in these matters is all-important, that where there is disagreement among the committee, the names of the members for and against should never be disclosed. The ballot (a written "yes" or "no"), in case of disagreement, should be always used wherever possible. Coloured slips may be used where members are illiterate.

A member of a committee is not allowed to be present when his own application for a loan is under consideration.

Rule 44.—The normal security for short-term loans is two sureties, two persons who sign the bond as guarantors that the member will pay on the due date and that they will pay if he

fails to do so. They may be members or non-members, but it is preferable that at least one should be a member, as the arbitration procedure under Rules 72–75 cannot be enforced in the case of a non-member. There is bound to be a certain amount of guaranteeing each other. A's loan is guaranteed by B and C, B's by A and C, and C's by A and B. If the loans are not for large amounts, and if the three persons in question are all hard workers and producers of more than one crop, there is not much danger, but it is best to avoid these reciprocal sureties when possible. Sureties must be provided, or other security may be accepted by the committee. Mortgage of land is not a desirable security for a society to take on account of a short-term loan, and it should be avoided. If the ordinary law allows a chattel mortgage or pledge of crops, this is a useful form of security and there is always the "first charge" on the crop under Section 14.

Rule 45.—The purpose of the loan should be stated in the form of application. This form is kept by the secretary and can be used as evidence, if necessary, of the purpose. The member must use the loan for the purpose stated in the application. If he asked for a loan to buy seed maize, and he buys clothes instead, the committee should call upon him to repay the loan at once, and if he fails to pay, a "dispute" arises which must be dealt with under Rules 72–75.

The reason for this is that credit given by co-operative societies is controlled credit and the control is exercised by the committee. It is a breach of the terms on which the money was lent to the member if he fails to keep his side of the arrangement, namely to use the money for the purpose for which he asked for it. The committee is therefore entitled to claim repayment.

Rule 46.—A bond in the form of a simple acknowledgment of the receipt of a certain sum and a promise to repay it within a fixed period is always signed by the borrowing member and by his sureties. No money should be paid until the bond has been duly signed. It is usual to refer in the bond to the application (Rule 42) in which the purpose of the loan is stated. A standard form of bond for use in all societies should be provided by the Registrar. Separate files should

be kept of bonds not yet due and those due but remaining unpaid. All bonds settled should be kept in a separate file.

Rule 47.—The principle underlying this rule is that it is no good lending more money to people who do not pay their debts on the due date. It is remarkable how many seemingly good reasons will be produced by borrowers when they are unable to pay, and it is the duty of the committee to decide whether in fact the issue of another loan will enable the member to repay later on the first loan.

This rule of not giving a further loan to defaulters should generally be observed strictly, and variations from it should only be made when the committee is satisfied that a further loan will ensure repayment of the first loan.

Rule 48.—The member must make the first move. Unless he notifies the secretary in writing before the loan is due to be repaid, that for such-and-such reason (sickness, failure of crop) he is unable to pay and explains that he expects to be able to pay later from another crop or from some other source of income, then the committee should not, on its own, extend the time for repayment. Borrowing members must tell the committee the whole story and must tell it in time—not afterwards.

The committee and the borrowing members should understand this rule thoroughly and the committee should enforce it, for if members believe that the bond will not be enforced, i,e. that they will usually be given more time to repay, they will get into slack habits and always put off the time for repayment. The society, on the other hand, has to pay its depositors on the dates on which it promised to do so. If the members do not pay on the due date, the society often cannot pay the depositors. Then it has to be liquidated.

It is one of the hardest tasks of the committee to insist on payment on the due date, and they become unpopular as a result; but if they do not insist, there is a danger that before very long the society will break down. Slackness on the part of the committee in enforcing payment of debts due by members is one of the principal causes of the failure of many societies.

Rule 49.—The committee will be well advised to ask for repayment before the due date where a member has not used

the loan for the purpose stated in the application (see comment under Rules 43 and 45).

Rule 50.—It is the duty of the committee to press for repayment of loans due in cases where extensions of time have not been given (see comment under Rule 48). Not to do so is a breach of the rules, and if the committee are slack in this respect the Registrar may call a special general meeting or use his powers under Rule 65. There is no question of action in a court. The procedure is laid down under Rules 72–75, as the matter becomes a "dispute" under Section 49 (1). There is therefore no excuse for the committee not taking necessary action to collect debts due to the society, and it is the duty of the staff to examine the society's records carefully and to see that this rule is being enforced.

RULE 51 APPLICABLE TO MARKETING SOCIETIES

Marketing

51. (1) Every member of the society shall deliver to the society at such place as the committee shall direct such amount of articles produced or obtained by him as may be prescribed in the bylaws or in the relevant contract to be disposed of by the society.

(2) Any member who is approved or adjudged in accordance with the provisions of Section 49 of the Ordinance to be guilty of a breach of the bylaws or the relevant contract as the case may be shall pay to the society as liquidated damages such sum as may be specifically assessed or ascertained in manner prescribed by the bylaws or by the relevant contract and such sum shall be deemed to be a debt due to the society.

Rule 51.—This rule should be read together with Section 13 of the Ordinance, which deals with the disposal of produce to or through a society and gives power to the society either by bylaws or by a separate contract to call upon members to dispose of their produce to or through the society. The section and this rule do not apply only to societies the registered object of which is to market the members' produce. Any society may submit a bylaw for registration which may provide for marketing any of the produce of the members.

The rule directs members that they must deliver at a place to be fixed by the committee the amount of produce fixed in the contract or bylaws. It goes on to lay down the procedure where a member fails to deliver in accordance with the contract or bylaw. A "dispute" then arises which must

be dealt with under Rules 72–75. The penalty for failure to deliver has already been set out in the contract or bylaw, and the arbitration is then a question of fact, whether the member did or did not deliver the required quantity. If the arbitrator finds that the member did not in fact deliver, the member must pay the damages provided in the contract or bylaws. There is no question of an action in court. Everything is done under the arbitration procedure, thus saving time, trouble and money to societies and members.

Once the bylaws have been passed and approved by the Registrar, members must comply, and this fact should be carefully explained to the members before the bylaws are finally passed at the general meeting.

Bad Debts

52. The committee may, with the approval of the Registrar, cause bad debts to be written off the books of the registered society in such manner and at such times as the Registrar may deem fit.

Rule 52.—Even the most careful committees sometimes make mistakes and lend money to members who are unable to pay and whose societies are also unable to pay, and there comes a time when the loss on this account must be shown in the accounts. The accounting procedure for writing-off these bad debts is left to the Registrar to decide. He may think it best for the loss to be borne in one year or spread over two or more years. It will be remembered that one of the reasons why a reserve fund is created is to cover bad and doubtful debts. So long as there is any hope of recovery of the money, the debt should not be written off.

Preparation of Annual Accounts and Report

53. The committee shall in every year and as soon as conveniently possible within such time as the Registrar may direct:—

(*a*) cause the secretary to prepare and send to the Registrar the yearly balance sheet closed on the (insert day and month) of the preceding year together with a detailed statement of the profit and loss account; and

(*b*) prepare a report on the year's working of the registered society to be presented to the annual general meeting.

Rule 53.—It is the duty of the committee to prepare a yearly balance sheet, together with a profit and loss account, and a report on the past year's working. The accounts and

the report are presented to the members at the annual general meeting (Rule 24 (*b*)). The preparation of the balance sheet and of other accounts is done by the secretary (Rule 61 (*c*)), but often, especially at the start, the co-operative staff will be called upon to help him. To the ordinary member, the balance sheet will be a mystery, and it is the duty of the staff to explain, on visits of inspection, the various items in it and why they are shown as assets or liabilities, as the case may be. It will be found that once members have understood the reasons for the make-up of the balance sheet, they will show an interest in it in future years. While there is no need for the staff to explain in detail how the profit and loss account is made up, the yearly result is quickly appreciated by the members.

The committee's report is best left to the committee to prepare without advice, and occasionally some interesting and unexpected information may appear. It should be a record of the society's working during the year and it usually contains the number of occasions on which the committee met, changes in bylaws, if any, complaints and suggestions to the Registrar.

Transfer of Shares

54. (1) Any share may be transferred with the approval of the committee to any other member at the option of the transferor, but if the transferee is not a member, he must be approved of as a member by the committee, or the general meeting according to the bylaws relating to the admission of members before the transfer can be registered; and if the bylaws require a member to hold more than one share, the transferee must acquire by the transfer, or by the transfer and allotment, the number so required to be held before the transfer can be registered.

(2) Special transfer forms shall be provided by the Registrar.

(3) No transfer of a share shall be valid and effective unless and until such transfer has been registered by the secretary on the direction of the committee.

(4) No transfer of a share shall be registered if made by a member indebted to the registered society without special order of the committee, and until the transfer of a share is registered no right shall be acquired against the registered society by the transferee, nor shall any claim of the registered society upon the transferor be affected thereby.

Sales of Shares of Members in Default

55. The committee may in default of payment by any member indebted to the registered society to an amount not less than

three-fourths of the sum paid up for the time being on any transferable share held by him, sell, transfer and register in the books of the registered society such share to any person entitled to hold the same under the rules or bylaws for the best price obtainable therefor, and apply the proceeds in or towards the discharge of the debt so due and of any expense incurred in or about the same, paying over the balance (if any) to the member, without being responsible for any loss occasioned thereby, and the defaulting member shall cease to have any further claim in respect of such share.

Rule 54.—This rule provides that a member may transfer any of his shares to another member or to anyone else, provided that he becomes a member. In that event the transfer is not effective until all the formalities of membership have been gone through. Then the transfer is effected by the secretary in the register of members (Rule 10 (*a*)), which is also the register of shares unless under the rules in force in the territory a separate share register is prescribed.

If the member transferring the share is indebted to the society, the committee may refuse to allow the transfer, but the amount of share capital held in comparison with a debt due is usually small, and the share capital should not be taken into account by the committee when approving the loan in the first instance. A member cannot evade his own debts to the society by resigning and transferring his share, and he remains responsible for the debts of the society for two years (Section 29).

Rule 55.—Where a member is in default of a sum not less than three-quarters of the amount paid-up on his share, the committee may sell his share to another member and set off the sale price against the debt (see comment under Rule 54 above).

Secretary

56. (1) The committee shall appoint a secretary and, unless the person so appointed is a member of the committee, shall have power to fix the remuneration for his services.

(2) The secretary, if a member of the committee, shall be unpaid.

(3) No appointment made under paragraph (1) of this rule shall be valid and effective, and no remuneration fixed thereunder shall be payable or recoverable, unless approved by the Registrar. Every such approval shall be communicated in writing by the Registrar to the committee.

(4) In the event of failure on the part of the committee to appoint a secretary, the Registrar shall appoint a secretary and, unless the person

so appointed is a member of the committee, the Registrar shall fix his remuneration. Every appointment made by the Registrar under this paragraph shall be valid and effective, and every remuneration fixed by the Registrar shall be payable and recoverable, as if made or fixed by the committee.

(5) The secretary shall occupy his office until his services are determined by one month's notice in writing given by the committee:—

Provided that no determination as aforesaid shall be valid and effective until the approval of the Registrar in writing has been obtained therefor.

(6) The secretary may resign his office by giving one month's notice to the committee in writing.

(7) On the occurrence of a vacancy in the office of the secretary, the provisions of this rule shall apply *mutatis mutandis* to the filling of such vacancy.

Payment of Secretary

57. The remuneration of the secretary, if any, shall be paid from the funds of the registered society monthly in arrear.

Security by Secretary

58. (1) The secretary may be required to give security in such amount as the committee may determine.

(2) Every such security and the amount thereof shall be subject to the approval of the Registrar to be signified in writing to the committee.

Suspension of Secretary

59. (1) The committee may at any time suspend the secretary for any irregularity in the performance of his duties.

(2) Such suspension shall be reported forthwith to the Registrar who shall approve or disallow the same and shall communicate his decision to the secretary and the committee in writing, and on notification of his approval of the suspension the services of the secretary shall be determined without further notice.

(3) In the event of the suspension of the secretary the committee shall forthwith appoint a substitute to hold office during the period of such suspension and shall report the name of such substitute to the Registrar.

Temporary Absence of Secretary

60. (1) The secretary shall not absent himself from duty save with the permission of the committee previously obtained.

(2) During the absence of the secretary, the committee shall appoint a temporary secretary and shall report the appointment to the Registrar.

(3) In case the secretary desires to be absent from duty for more than one month at any one time, the committee shall, before granting permission for such absence, obtain the previous approval of the Registrar therefor.

Duties of Secretary

61. The duties of the secretary shall be:—

(*a*) to attend all meetings of the registered society and of the committee and to carry out all the instructions of the committee;

(*b*) to be present at the office during the hours of business as fixed from time to time by the committee;

(*c*) to record the whole of the transactions of the registered society in the books provided for that purpose; to conduct correspondence on behalf of the registered society; to prepare the annual statement of accounts and balance sheet; and to have charge of the documents, books and vouchers for payments and receipts on behalf of the registered society;

(*d*) to receive all applications for loans and bring the same before the committee; to prepare receipts and other documents in the form prescribed for signature by borrowers prior to their taking the loans sanctioned; and with the authority of the committee to supply information about the registered society which may be applied for by members;

(*e*) to receive all moneys due or payable to the registered society and issue receipts to the payer for same from a counterfoil receipt book supplied to the registered society for the purpose by the Registrar, obtaining at the same time the signature of the person making the payment on the counterfoil;

(*f*) to deposit with the treasurer from moneys collected by him on behalf of the registered society all sums in excess of an amount to be fixed from time to time by the committee and to obtain from him a receipt on a form to be taken from the prescribed counterfoil book;

(*g*) to keep separate all moneys belonging to the registered society and on no account to mix them with any other moneys; and to produce at all times when called upon to the committee, or the Registrar or any person authorised by him, all moneys in his hands belonging to the registered society;

(*h*) to make payments as authorised by the committee, obtaining the payee's signature in the payment book prescribed by the Registrar;

Provided that if the payment is made outside the registered society's office the secretary shall, in every instance, obtain from the payee a manuscript receipt and attach it to a separate page of the payment book;

(*i*) to issue a receipt on a form to be taken from the prescribed counterfoil book when receiving money from the treasurer; and

(*j*) to summon meetings as provided in the rules.

The secretary is the servant of the members whether he is paid or unpaid. He has duties (Rule 61), but he has no specific powers under the Ordinance or rules. Every act of his as

secretary is by direction of the committee. He is a most important part of the machinery of a society. He should know the Ordinance and the rules so that he may be able to advise the committee what they may or may not do. He should also be accessible to members to explain to them their rights and duties. He should be able to keep accounts in the way in which the Registrar may direct from time to time and he must record decisions taken in committee and general meetings. To the criticism that in most territories such men cannot be found in rural areas it may be answered that with patient training by the co-operative staff any man with ability to read and write simple English or the vernacular can become, in not too long a time, a useful secretary. And if he is a farmer himself, so much the better, for he will be more appreciative of the problems of the members. There is a temptation to appoint schoolmasters or other learned men as secretaries. There is no objection, provided it is understood that they will start to train a prospective successor, preferably a young farmer in rural areas, at once, and the staff must see that this is being done. Often there is a promise to do so and the promise is not carried out. The quick talker, who knows all the answers, is not the best man as a secretary, nor is the man who is looked upon as the intelligent man in the village. Such men are often dangerous. It is better to appoint a slow man, whose accounts may be blotched with ink and whose books may be badly written up, provided that he is reliable. The secretary, with the treasurer, keeps the society's money, and the "clever" may may find purposes other than the society's to use the money.

Rule 56.—The committee appoints the secretary (*not* the general meeting) and fixes his pay, if any. If he is a member of the committee he should not be paid for doing the work of secretary. It is a great saving if an unpaid secretary can be found, at any rate at the start. But as the society develops, more and more work falls on the secretary, and it is reasonable that he should be paid for this work. It will be seen that sub-rule (3) provides for the approval of the Registrar both for the appointment and the pay. This approval has been found to be desirable in certain territories in order to prevent societies at the start from selecting the wrong sort of person to be secretary, the "clever" man referred to above. It has

also been found that the more influential men in the village like to have the position even though they may be incapable of doing the work, or too busy to do it properly. There is also a tendency for such people to "boss" the committee and to run the society on their own. In strict theory the members should be allowed to ruin themselves and their society if they prefer to have a bad secretary. But it is better to prevent than to cure. When the society is in process of formation, the co-operative staff should look round for a suitable person or persons to be secretary, and, after discussion, lead the people to the belief that they should agree to one of those persons. Much can be done by persuasion, and the Registrar will not use his powers under sub-rule (3) unless he is convinced that otherwise the society will crash. Members of committees are often not very good over the pay question. They want to pay either too much or too little, and the Registrar acts as a referee in such cases.

Similarly, his power under the proviso to sub-rule (5) acts as a brake on the committee if they decide, without good reason, to sack the secretary—sometimes, for example, because one of the committee has a son for whom he wants a paid job. The Registrar will, of course, be kept fully informed by the staff of the work of secretaries, their relations with the committee, etc., and he will not use his powers to enforce on the committee an unwanted person as secretary. It has been argued that this control over the appointment of secretaries will throw too much work on the Registrar. This should not be so, for the changes should not be frequent, and if the secretary is not a suitable person it will mean far more work in the end in clearing up the mess.

The secretary must give one month's notice if he wishes to resign, just as the committee must give him one month's notice if they want to get rid of him.

Rule 57.—Since the secretary pays himself from the society's funds, it is necessary to have a rule how the pay should be drawn. He may not draw his pay in advance.

Rule 58.—The secretary has charge of the society's funds, and he should give security, usually in the form of a guarantee, given by one or more financially sound people in the village. If he is an owner of land he may give a mortgage on a piece

of land to the society. A prospective secretary who is not inclined to give security and who brings forward the argument that if he cannot be trusted he prefers not to be secretary should be politely thanked, and other efforts should be made to find a secretary. Committees will be disinclined to ask for security and they will have to be reminded of their responsibilities.

Rule 59.—This rule provides for the procedure to be adopted when some serious irregularity is discovered on the part of the secretary, such as mixing up his own money with the society's, or wilful disregard of the committee's instructions. If, on inspection, a member of the staff finds something seriously wrong, he should advise the committee to suspend the secretary at once, and if necessary telegraph to the Registrar asking for his approval. Where a criminal charge is likely to result, the staff should be careful to avoid trying to arrange matters; for example, the secretary should not be given 24 hours to find the missing money. A committee meeting should be called at once and the facts reported to the police. In such cases the member of the staff should hand the books over to the chairman and assist the police in their enquiries, as the police cannot be expected to understand the society's books without expert assistance.

Rule 60.—The secretary must get the approval of the committee before he goes away. Usually the office is open at certain times on certain days, and if the secretary is not going to be there he must ask the committee for permission. If he is going away for some time, the Registrar's approval is necessary, as it may be best to appoint someone else as secretary. It has been emphasised earlier that the secretary is a most important officer, and a casual secretary, who does his work just as he likes and appears at the office as and when it suits him, means an ineffective society. For this reason there have to be rules to see that the secretary does his work properly and, if not, to see that someone else is appointed.

Rule 61.—It is not enough to appoint a secretary. He must know what are his duties, and this rule lays down the main duties, with special reference to co-operative credit societies. The duties of a secretary of a co-operative store society or of a marketing society include most of those laid down in this rule, but there will be many others which should be communicated

to him in writing by the committee. An oral instruction to him that he should always be present to record deliveries of, say, maize in the society's store is not enough. It should be in writing in the minute book as a decision of the committee and it is his duty to carry out all the instructions of the committee (sub-rule (*a*)). He is in charge of books and correspondence; he deals with loans; he receives money on behalf of the society, and issues receipts; he makes payments on behalf of the society and gets the receipts from the payees; he deposits surplus cash from the treasurer and draws from him cash as required.

The committee should fix the maximum amount of cash to be held by the secretary and any surplus should be handed over to the treasurer. A proper receipt should be given each time, as otherwise the secretary may say that he has handed it over to the treasurer and the latter may deny it. If the society owns a safe it is usual for the committee to fix a high maximum for the secretary to keep in the safe, so that the treasurer is rarely called upon to hold money, although a separate locked drawer in the safe may be reserved for cash held by the treasurer, the secretary keeping the main key.

It must be impressed on the secretary and the treasurer that they must not mix up their own money with that of the society. From a genuine careless mixing up of moneys comes the first step in fraud, the "temporary" borrowing of some of the society's money for private purposes, and often the temporary borrowing becomes permanent. Members of the staff have to be constantly on the watch to see that sub-rule (*g*) is obeyed.

A word of warning to the staff on the danger of carrying money for societies may be given here. Some Registrars have given orders to the staff that they should on no account carry money to or for societies. These are wise orders. It is a great convenience for societies if members of the staff will take surplus cash to the nearest post office or bank, but for their own protection the staff should refuse to handle the money. If they do take the money they are personally liable, and an accident or a theft may cripple them financially for life.

TREASURER

62. The committee shall appoint one of the members of the committee, not being the chairman, to be the treasurer.

Security by Treasurer

63. The treasurer may be required to give security for such amount as may be determined by, and to the satisfaction of, the committee.

Duties of Treasurer

64. The duties of the treasurer shall be:—

(*a*) to receive from the secretary as provided in Rule 61 (*f*) moneys collected by the latter on behalf of the registered society, furnishing him with a receipt on a form taken from the counterfoil book supplied for the purpose by the Registrar and obtaining at the same time the signature of the secretary on the counterfoil;

(*b*) to advance money to the secretary for payments and obtain from him a receipt from the prescribed counterfoil book;

(*c*) to place to the account of the registered society in such bank as may be approved by the Registrar any amount in his hands in excess of the amount fixed from time to time by the committee;

(*d*) to keep separate all moneys belonging to the registered society and on no account to mix them with any other moneys; and to produce at all times, when called upon, to the committee, the Registrar or any person authorised by him, all moneys in his hands belonging to the registered society; and

(*e*) to keep a record on the prescribed form of all moneys received by him from the secretary and of all moneys paid to the secretary.

Where a society owns a safe or is in a town where a bank or a post office is available, the duties of the treasurer may be almost nominal, as the committee may direct that all surplus funds (see comment on Rule 61) shall be placed in the bank or post office.

Rule 62.—The committee must appoint a treasurer, although his duties may be nominal. The chairman cannot be the treasurer.

Rule 63.—If he is to handle funds he should, just as the secretary, give security (see comment on Rule 58). In this case the security need not be approved by the Registrar.

Rule 64.—This rule lays down in detail the duties of the treasurer in handling cash and his dealings with the secretary. It is important that there should be a fixed arrangement for these dealings so that each knows his own responsibility, and by means of the books the various dealings can be checked.

Unfit Officers

65. If in any society, in the opinion of the Registrar, any member of the committee or other officer is unfit for the discharge of his duties, the society shall on the requirement of the Registrar dismiss him.

Rule 65.—The provisions of this rule may be criticised as giving dictatorial powers to the Registrar. He may, in effect, dismiss members of the committee who have been elected as such by the general meeting. Where, then, is the democratic control which is one of the features of co-operation? In countries where co-operation is only just beginning, and more particularly in countries where education is not yet available to a number of people in rural areas, there is a danger that the "clever" men (see comment under "secretary") may become committee members. They may be so sure of themselves that they will not listen to advice, and thus bring a society to ruin at an early stage. There is also a danger that people whose interests as traders or middlemen will be affected by the society will get themselves elected as members of the committee and use their powers to see that the society does not work effectively. The ordinary members will be slow to realise that this is happening, and in any event will not like to call a special general meeting to get rid of them, if indeed they know what their rights are in this respect. So the rule gives power to the Registrar to get rid of such people. This power should be used very carefully and not often, and only when all other methods have failed, and, if it is not used, the society will crash. The fact that the Registrar has the power is often enough, and the staff may remind members of committee or officers that the power is there. If it is used, there must be a good case, and it is the duty of the staff to present the case properly to the Registrar with proof that such-and-such a member of the committee, for example, is threatening his fellow members that if they do not agree to action which they know is against the interests of the society he will use his influence with the local chief to see that their taxes are increased, or will stop their credit at the store.

The position may arise where the secretary is working against the interests of the society. The committee may not realise this or may for various reasons be unwilling to dismiss him under Rule 56 (5). It is then for the Registrar to decide whether he will allow the society to fail or to take action under this rule. If a good deal of work has been put in to make the society effective, and the secretary is deliberately working against the society's interests, action by the Registrar under this rule is legitimate.

Reserve Fund

66. (1) The reserve fund of a registered society, created in pursuance of the provisions of Section 34 (1) of the Ordinance, may, with the sanction of the Registrar:—

(*a*) be utilised in the business of the registered society; or

(*b*) be applied to meet occasional deficiencies incurred by the registered society.

(2) In sanctioning the utilisation or application of the reserve fund under paragraph (1) of this rule, the Registrar may impose such terms and conditions as he may deem fit.

Rule 66.—See comment under Section 34 of the Ordinance. Under that section the method of employment of the reserve fund is left to the rules.

In the past there has often been argument on the desirability of using the reserve fund in the business of the society, and this rule provides that it may be so used. Calvert says: " . . . The writer of this book has repeatedly requested defenders of this attitude (those who hold that the reserve fund should not be used in the business of the society) to take pencil and paper and show how the position of a primary credit society is in any way strengthened or improved by refusing to allow it to use its own reserves in its own business. The above rule seems to him merely a device to enable the financing bank to make money at the primary society's expense. He has never heard from any source a single sound argument in its favour. . . ."

There may be occasions when the society has suffered losses through non-repayment of loans, through deterioration of crops or goods in store, or through ill-advised purchases for its members. The loss is such that it is too large to be charged to loss in the profit and loss account of the year. Then if the committee consider that part of the reserve fund should be used to cover that loss, they may ask the Registrar for his sanction. The Registrar may agree, but he may also make his agreement conditional on the society raising the rate of interest on loans to its members, or by an increase in the price of certain other goods, or by making members pay by instalments for one more share each, or he may insist on some other way of increasing the society's owned funds. The need for a strong reserve fund has been stressed in the comment under Section 34, and if part of the fund is to be used to cover losses, it should be

built up again as soon as possible, even though the members may have to make some sacrifice to enable this to be done.

Audit of Accounts

67. In pursuance of the provisions of Section 35 of the Ordinance, the accounts of every registered society shall be audited once at least in every year by some person authorised by the Registrar. Such person shall have access to all the books and accounts of the registered society and shall examine every balance sheet and annual return of the receipts and expenditure, funds and effects of the registered society, and shall verify the same with the accounts and vouchers relating thereto, and shall either sign the same as found by him to be correct, duly vouched and in accordance with the Ordinance, and shall report to the Registrar accordingly, or shall specially report to the Registrar in what respects he finds the same incorrect unvouched or not in accordance with the Ordinance. The Registrar shall thereupon forward the report of such persons to the committee.

Rule 67.—See comment under Section 35. The duties of the auditor are detailed by this rule. The phrase "in accordance with the Ordinance" should be noted. It is the duty of the auditor not only to see that the accounts are in order, that the balance sheet and returns have been properly prepared, and that there are vouchers for all the entries in the cash book, but also to see that nothing has been done which is contrary to the Ordinance, the rules and the bylaws. He should, for example, examine the minute book carefully, and if he sees in the accounts that the society bought seed corn for the members and that there is no decision in the minute book to that effect, he should draw attention to this omission in his report. Similarly, if a marketing society whose bylaws provide for the marketing only of coffee is found to be marketing eggs without an amendment to the bylaws, he should report to the Registrar, advising, at the same time, the society to pass the necessary amending bylaw.

The auditor's report is considered by the general meeting (Rule 24 (*b*)), and it should be short and written in simple language easily understood by the members. Any audit queries dealing specifically with the accounts are best prepared on separate query sheets, which are sent by the Registrar to the secretary for his comments or corrections, as the case may be. They need not be included in the report unless of special interest to the members.

The Ordinance provides that the accounts shall be audited

by some person authorised by the Registrar, and in the comment to Section 35 it was stated that it is usual for members of the staff to audit primary societies in the area in which they are working. In some territories there is a special audit staff within the department, but it is usually not possible or desirable at the start to organise a special staff. If the members of the staff audit the accounts in their own areas, they know much better than any outside person what is going on, and they also know the committees and secretaries and what to look for in the accounts. They are often the same people who have organised the societies at the start and they know all their weaknesses. It is also a saving of time and expense if, on their rounds of inspection, they do a certain amount of preliminary checking, and as members of committees are usually only available in the evenings, part of the day at least can be spent in checking the books up to date as a preliminary to the annual audit.

When societies have been operating for some time and the committee and secretary become experienced, an auditor who is not the local co-operative officer can well do the work (see comment on Audit and Supervision Fund).

Audit and Supervision Fund

68. (1) There shall be constituted a fund to be known as the Audit and Supervision Fund and every registered society shall, when called upon to do so by the Registrar, make annually a contribution to such fund.

(2) Until such time as a society has been established and registered for the purposes of supervision and audit, such contributions shall be held by the Registrar and administered by him on behalf of the contributing registered societies.

(3) So long as the Registrar administers the fund on behalf of the contributing registered societies, he shall report in every year to the Government in respect of the income derived from contributions, the expenditure he has sanctioned from the fund and the balance in his hands.

(4) As soon as a society for supervision and audit has been established and registered the fund shall be credited to such society and shall be utilised by such society in accordance with its objects and bylaws.

(5) Until a society for supervision and audit has been established and registered, the Registrar shall fix the amount of the annual contribution to the fund of every registered society called upon to contribute to the fund. The amount of every such annual contribution shall be subject to a maximum of either 10 per cent. (10%) on the net annual profits of the registered society or of 1 per cent. (1%) of the working

capital of the registered society, and shall not in any case be less than ——

Rule 68.—The long-term aim in the past has been that in due course the annual audit should be carried out not by the staff of the co-operative department but by auditors employed by a society or union formed for the purpose of supervision and audit, and that societies should pay for the cost of the audit. The co-operative staff would then confine its activities to organisation, inspection and an occasional super-audit, to see that the auditors are doing their job properly. It will be some time before audit, even of a few societies, can be left to auditors employed by a union for supervision and audit. They will have to be trained and will have to pass a special examination. The union may be formed after some years, but its auditors should only work in societies which are well established and where the committees and secretaries are experienced people. This handing over of audit functions will be a gradual process and, until the union starts its work of audit, the Registrar is empowered to call on societies to pay a yearly contribution to cover at least part of the cost of audit to his staff. A fund is started and the income may be used for the appointment of additional persons to help the co-operative staff in their audit work. It has been found convenient to send a secretary of a neighbouring society to do a few days' checking. It saves the time of the co-operative staff and it is good education for the secretary. There can usually be found in due course in each area secretaries capable of doing preliminary audit checking.

When the time comes for the formation of the audit union the bylaws will provide for membership and the annual fee to be paid for audit by each member society. Usually no contribution is called for during the first three years or so of a society's existence, and newly registered societies will not immediately become members of the union for supervision and audit. The contribution payable to the fund under sub-rule (5) is elastic. If a society is doing well, the Registrar will probably fix the maximum; if its turnover is small, the minimum. If a society's books are kept in a bad state and a lot of time is spent on audit, the Registrar will probably fix the maximum and tell the society why he has done so.

* To be determined locally.

Sub-rule (3) provides for the Registrar to submit an annual report to government on the fund, and the societies should also be told how their contributions are being spent.

Bylaws

69. (1) The bylaws of a proposed society shall contain provision in respect of the following matters:—

(*a*) the name of the society;

(*b*) the registered address of the society;

(*c*) the objects for which the society was established;

(*d*) the purposes to which the funds may be applied;

(*e*) the qualifications for membership, the terms of admission of members, and the mode of election;

(*f*) the nature and extent of the liability of members; and

(*g*) the manner of raising funds, including the maximum rate of interest on deposits.

(2) If the objects of the proposed society include the creation of funds to be lent to the members, the proposed bylaws shall, in addition, contain provision in respect of the following natters:—

(*a*) the occupation or residence of the members;

(*b*) the conditions on which loans may be made to members including—

(i) the rate of interest, and

(ii) the maximum amount which may be lent to a member; and

(*c*) the consequences, if any, of default in the payment of any sum due on account of shares.

Amendment of Bylaws

70. (1) Where, in pursuance of the provisions of Section 10 (1) of the Ordinance, a registered society amends its bylaws, such amendment shall be made by a resolution of the members of the registered society at a general meeting.

(2) Every resolution under paragraph (1) of this rule shall not be valid and effective unless it was taken by a majority of not less than three-fourths of the members present at the general meeting at which the resolution was proposed.

(3) A copy of a resolution under paragraph (1) of this rule shall be forwarded to the Registrar together with three copies of the amendment.

Rule 69.—Under Section 2 of the Ordinance, bylaws are defined—under Section 6 copies of the proposed bylaws must be submitted to the Registrar with the application for registration (see comment under Section 6).

The name, address and objects of the society must be included and the purpose to which the funds may be applied. Under

qualifications for membership the society may be limited: for example, to farmers only, or to farmers and artisans, or to permanent and pensionable employees of the railways, or to all employees of the railways, etc. Under terms of admission, the bylaws may provide for an entrance fee and the purchase of one share, or for no entrance fee and the purchase of more than one share, either at once or by annual or quarterly instalments. The mode of election may be by general meeting, but it will be found to be more convenient to allow in the bylaws election by the committee. The liability may be unlimited or limited, and if the latter it may be limited to the amount paid up on share capital or to a multiple of that amount. The manner of raising funds, for example, may be restricted to loans and deposits from members, or to long-term deposits only from members and non-members. When the society is a credit society, the bylaws must provide for the type of member, conditions under which loans may be given, and what is to happen if members do not pay up their share capital.

In the comment on Section 6 it is stated that model bylaws are usually provided by the Registrar for convenience, and they will, of course, contain all the matters which this rule provides should be contained in the bylaws.

Where the rules cover a good many points which the Ordinance allows to be covered either by rules or bylaws, as in the case of these model rules, the model bylaws need contain little more than is provided for under this rule.

Rule 70.—Original bylaws are those forwarded to the Registrar before the society is registered. Copies of the bylaws as approved by him are sent to the society with the certificate of registration, and the society starts its operations with those bylaws. Later, the society may wish to alter or extend its activities. For this purpose it is necessary to amend the bylaws, as any action taken by the society which is not covered by the bylaws is illegal.

The amendments must be approved at a general meeting and at least three-fourths of the members present at that meeting must vote for them. If the necessary majority is not obtained, the amendments cannot be made.

Members join the society knowing that the bylaws allow such-and-such activities. If these are to be changed, the members as a whole are the people to decide, and so the matter

has to be referred to a general meeting. And since the change may be an important one and may affect the liability of the members, the will of the great majority to agree to the change must be expressed; not just a simple majority, but one of three-fourths of the members who take the trouble to attend the meeting.

Copies of Entries

71. For the purposes of Section 20 of the Ordinance a copy of an entry in the book of a society may be certified by a certificate written at the foot of such copy, declaring that it is a true copy of such entry and that the book containing the entry is still in the custody of the society: such certificate being dated and signed by the secretary and one member of the committee.

Rule 71.—This rule shows the form of certificate to be added below the copy of an entry in a society's books so that the entry may be accepted as evidence in any court or in arbitration proceedings.

The copy must be an exact copy of the entry in the book.

Reference of a Dispute to the Registrar for Decision

72. (1) Reference of a dispute to the Registrar for decision under the provisions of Section 49 (1) of the Ordinance may be made:—

(*a*) by the committee; or

(*b*) by the registered society in pursuance of a resolution in that behalf taken in general meeting; or

(*c*) by any party to the dispute; or

(*d*) where the dispute concerns a member of the committee and the registered society, by any member of the registered society.

(2) Every reference under this rule shall be made by a statement in writing addressed to the Registrar. Such statement shall:—

(*a*) be dated;

(*b*) specify the dispute;

(*c*) set out full particulars of the dispute; and

(*d*) be signed by the party making it.

Reference to Arbitration by the Registrar

73. (1) Where, in pursuance of the provisions of Section 49 (2) (*b*) of the Ordinance, the Registrar decides to refer a dispute to arbitration, such decision shall be embodied in an order of reference under his hand.

(2) Every order of reference under this rule shall:—

(*a*) specify the name, surname, place of abode and occupation of the arbitrator or arbitrators;

(*b*) set out the dispute and full particulars thereof; and

(c) limit the time within which the award shall be forwarded by the arbitrator or arbitrators to the Registrar: Provided that, on good cause shown to his satisfaction, the Registrar may by a further order enlarge the time whether before or after the time limited by the order of reference has expired.

(3) Where the Registrar decides to refer a dispute to more than one arbitrator, such reference shall be to three arbitrators, of whom one shall be nominated by each of the parties to the dispute and the third shall be nominated by the Registrar and shall act as chairman.

(4) Where under paragraph (3) of this rule reference is made to three arbitrators, the following provisions shall have effect:—

(a) if any party to the dispute fails to nominate an arbitrator within such time as the Registrar may specify, the Registrar may make the nomination himself;

(b) if an arbitrator nominated by one of the parties to the dispute dies, or refuses or neglects to act, or by absence or otherwise becomes incapable of acting, the Registrar shall call upon the party concerned to nominate a new arbitrator within such time as the Registrar may specify, and if no new arbitrator is nominated accordingly, the Registrar may nominate one himself;

(c) if the arbitrator who dies, or refuses or neglects to act, or becomes incapable of acting, was nominated by the Registrar, a new arbitrator shall be nominated in his place by the Registrar; and

(d) the opinion of the majority of the arbitrators shall prevail.

Proceedings Before the Arbitrator or Arbitrators

74. (1) The proceedings before the arbitrator or arbitrators shall, as nearly as possible, be conducted in the same way as proceedings before a court of law, and in particular the following provisions shall have effect in respect thereof:—

(a) notice of the time and place at which the proceedings are to be held shall be given to the parties to the dispute, and such notice shall be a ten (10) days' notice;

(b) a record of the evidence adduced before the arbitrator or arbitrators shall be made, dated and signed by the arbitrator or arbitrators;

(c) documents produced as exhibits before the arbitrator or arbitrators shall be marked, dated and initialled by the arbitrator or arbitrators and shall be attached to the file of the proceedings; and

(d) in the absence of any party duly notified to attend, the dispute may be decided by the arbitrator or arbitrators *ex parte*.

(2) The award of the arbitrator or arbitrators shall:—

(a) be in writing;

(b) be dated and signed by the arbitrator or arbitrators; and

(c) state the amount of the costs and expenses of the arbitration, if any, and by which party or parties to the dispute the same are to be paid.

(3) Upon the completion of the proceedings, the arbitrator or arbitrators shall forward to the Registrar:—

(a) the file of the proceedings; and

(b) the award.

PROCEEDINGS BEFORE THE REGISTRAR

75. Where, in pursuance of the provisions of Section 49 (2) (a) of the Ordinance, the Registrar exercises the power of deciding a dispute himself, the proceedings before him in relation thereto shall, as nearly as possible, be conducted in the same way as proceedings before a court of law and the provisions of rule 73 shall apply *mutatis mutandis* to such proceedings.

The procedure described in rules 72–75 is known as arbitration, and in Section 49 (1) it is provided that where a dispute (see comment under Section 49) touching the busines of a society arises, such dispute shall be referred to the Registra for decision. He then either decides the dispute himself or refers it to arbitration. The latter is the more usual. This procedure is compulsory. Societies cannot choose to take a case to the courts. They must refer it to the Registrar (see comment under Section 49).

Rule 72.—Subsection (1) shows who may ask for arbitration proceedings to be started. Arbitration proceedings are not applicable where there is a dispute between a society and a non-member, e.g. where a society claims payment from a surety who is not a member.

Sub-rule (2): The statement required is quite simple. The usual type of dispute is a claim by the society against a member for a debt due but not paid. In such cases the statement will say that member "A" owes the society £2 with interest at —— per cent. from the 1st June, in accordance with the enclosed certificate under rule 71. He has not paid on the due date and the society refers the dispute to the Registrar for decision. The secretary will sign the statement on behalf of the society.

Rule 73.—It has already been stated that the usual course is for the Registrar to refer disputes to arbitration. A special form is prepared in the Registrar's office in which the details under sub-rule (2) are set out. This form is then sent out to

the person or persons appointed as arbitrators and a time limit is given for the award to be notified to the Registrar (sub-rule (2) (*c*)).

Sub-rules (3) and (4) show the procedure to be followed when more than one arbitrator is appointed. Where the case is a simple one, a claim by the society for a debt due by a member, it is not usual to appoint more than one arbitrator, but where it is complicated or controversial, such as a dispute over the election of members of the committee, the Registrar will probably appoint three arbitrators. At the start, i.e. while societies are still in the infant stage and there are no members with sufficient experience, it is usual for members of the staff to be appointed as arbitrators, but as soon as possible, secretaries or members of committees of neighbouring societies should be appointed. Their methods may be rather rough, but it is best for the members to be judged by their neighbours than by the staff. It is all part of the process of adult education, in which the co-operative movement should play a large part.

Rule 74.—The proceedings should be as informal as possible and they should be held in public. Proper notice of the time and place must be given to the parties and a record must be kept. This may be very short, but copies of documents must be attached to the record. It will be seen that if one of the parties does not attend, the proceedings go on in his absence. No one can get out of his obligations merely by not turning up.

The award under sub-rule (2) should be a short statement of fact that the arbitrator finds that the claim of the society, or member, as the case may be, is correct. No reasons for the award should be given, as there is no need for them. As regards costs, there is usually no question of a fee for the arbitrator, but there may be some expenses for his journey and possibly a night's lodging, or if the parties are called to the arbitrator's place of residence, there may be similar expenses. Postages may be incurred. Costs should be kept as low as possible.

There is nothing in the Model Ordinance or rules to prevent the appearance of legal practitioners at arbitration proceedings, but since the disputes are usually on matters of fact and not of law, their appearance is not likely to be of much help to

the arbitrator. The question of costs is left to the arbitrator. Under Section 49 (3) there is an appeal to the Registrar in all cases, and, if necessary, the procedure in such appeals may be laid down in a special rule. If there is no rule, a simple petition stating the grounds on which an appeal is being made against the decision of an arbitrator will cause the Registrar to look into the case and give his decision on the appeal by a reply in writing to the petitioner.

Under Section 49 (5) the award of the arbitrator is enforced as if it were the judgment of a civil court. There is no appeal to a court and the award cannot be called in question in any civil court.

Rule 75.—This rule provides for the procedure where the Registrar does not send a case for arbitration, but decides it himself.

Fees

76. The fees specified in the schedule hereto shall be payable for the matters to which they relate.

Schedule of Fees

(Rule 76)

[Set out fees, if any.]

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